

July 5, 2012

BY HAND DELIVERY AND U.S. MAIL

Wendi A. Horwitz
Deputy Attorney General
Attorney General of the State of California
300 South Spring Street, Suite 1702
Los Angeles, California 90013

Re: Victor Valley Community Hospital

Dear Ms. Horwitz:

The Board of Directors of Victor Valley Community Hospital ("Victor Valley," "Hospital" or "Seller") at a special meeting in June 2012 approved moving forward with the Asset Sale Agreement with Victor Valley Hospital Acquisition, Inc. and Victor Valley Hospital Real Estate, LLC ("Buyers" or "VVHA") and a new Fourth Amendment, which was signed by all parties on June 29, 2012.

On behalf of the applicant to your office, seeking consent, we ask for approval of the Fourth Amendment, a copy of which is enclosed. The changes to the Asset Sale Agreement, the original terms of which your office gave conditional consent on December 29, 2010, are described in the Fourth Amendment and several are referenced below. The current sale proposal achieves certain goals of the Seller: (1) it keeps the hospital — vital to the local community and to the Medicare and Medi-Cal programs — open for the foreseeable future, and puts the hospital under the control of experienced hospital operators with community doctor participation, maintaining employment for substantially all the employees in an area suffering from high unemployment; and (2) it obtains the highest possible value for the Seller's assets, considering the limited time that the Seller has to close a sale.

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Absent an additional source of loaned funds by June 30, 2012, Victor Valley had been advised by Alvarez and Marsal Healthcare Industry Group ("A&M"), its financial advisor, that the Hospital needed to commence an orderly shutdown of the acute care facility because of dwindling cash on hand. The Buyers will be providing the Seller with additional financing pending a closing of a sale this summer, but every additional dollar of borrowed money to keep the Hospital open takes away from the potential recovery by the unsecured creditors of Victor Valley in its continuing bankruptcy proceedings. We enclose copies of the 2010 and 2011 audited financial statements for the Hospital, and a copy of the recent May 2012 interim financial statements for your information.

Victor Valley considered options other than a sale to the Buyers, but eliminated them all for different reasons. Please see the enclosed Board Minutes for the Special Meeting of June 12 and June 19, 2012. St. Mary Medical Center had been in discussions with Victor Valley since the beginning of 2012, but, despite exhaustive due diligence over many months, St. Mary was unable to state its price and unwilling to commit to debtor-in-possession financing. The original \$35 million offer in St. Mary's non-binding letter of intent contained provisions for an offset of \$1 million, additional credit offsets for any stabilization funds received before close of a sale, and acquisition of all accounts receivable. In negotiations with St. Mary, Victor Valley eliminated the offsets and the inclusion of accounts receivable as an acquired asset, leaving St. Mary to respond with a revised purchase price. It would not or could not arrive at an amount to offer as a reduced purchase price despite the passage of more than two months. Prime Healthcare Services Foundation and Prime Healthcare Services remained financially supportive of the Hospital and made an offer to extend \$500,000 in additional financing by June 30, but unfortunately Prime legally could not close a sale and thus represented only a short reprieve for the Seller. The Victor Valley Board also looked at whether the Hospital could remain a standalone hospital, but sufficient financing for that option was not available. Another potential option surfaced in May, which led to a non-binding offer in mid-June from a confidential company that had been contacted by A&M. The offer of \$35 million and debtor-in-possession financing of \$5 million was subject to due diligence, which the company wanted 60 days to conduct, your office's approval as a new application, and a \$1 million break-up fee. Effectively, taking into account that the Hospital is living on borrowed money and borrowed time, the alternative for the Board became a sale to the Buyers or an all-or-nothing choice of the confidential company's offer that would not permit Victor Valley enough money or time to do a different transaction 30 or 60 days later if the due diligence contingency was not satisfied.

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The Board and management of the Seller have relied on financial analysis by A&M and the advice of this firm and Victor Valley's bankruptcy counsel. We have attached to the enclosed Minutes a copy of the deal comparison provided to the Board by A&M at the June 19 meeting. Despite serious reservations by the Board regarding the Buyers' ability to close a deal, the Board unanimously approved the renewed sale to VVHA.

Victor Valley requests approval of the following changes to the Asset Sale Agreement as represented by the terms of the enclosed new Fourth Amendment. There is a change in the Purchase Price, which is reduced from \$37 million. The effective sale price is \$33.8 million. The Hospital will be paid \$26.7 million at a closing under Section 1.2 of the Asset Sale Agreement and then the first \$7.1 million of Pending Stabilization Payments under Section 1.9, retaining them if any part thereof is paid before a closing or receiving them if paid to the Buyers after a closing. The United States Bankruptcy Court found that this consideration "still provides the highest and best value, and fair value and consideration," for the Hospital's assets. See paragraph N at pages 6-7 of the United States Bankruptcy Court's Order (1) Granting Debtor's Motion to Amend Asset Sale Agreement and to Approve Settlement Agreement and Release; (2) Approving Amendment to Asset Sale Agreement, (3) Approving Asset Sale Free and Clear of Liens, Claims and Interests; (4) Approving Settlement Agreement and Release, (5) Finding Good Faith, and (6) Granting Related Relief filed June 29, 2012 [Docket No. 2178] in the Hospital's bankruptcy case, Case No. 8: 12-12896-CB, which is now pending in the Santa Ana Division of the Central District of California.

In addition, due to changes since December 2010, the Seller signed a revised contract with Inland Empire Health Plan ("IEHP"). VVHA will be assigned the existing IEHP contract effective when the operating company of the Buyers gets its own license. This approach ensures coverage of IEHP members at the Hospital, consistent with the IEHP Condition. However, because the IEHP Condition states that the existing IEHP contract would be assumed by Buyers, the Seller and Buyers respectively request that the Attorney General change the wording of the condition to be consistent with the assignment.

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We appreciate very much your time and consideration. We will provide you with additional information if needed. We would be grateful for your response at the earliest possible date. Thank you very much.

Very truly yours,

BURKE, WILLIAMS & SORENSEN, LLP



CHARLES E. SLYNGSTAD

Enclosures

cc: Mr. Edward T. Matthews
Samuel R. Maizel, Esq.
Steven Schwartz, Esq.
William E. Thomas, Esq.
Todd E. Swanson, Esq.



Board of Directors
 June 12, 2012 at Victorville, California
 Continued and concluded on June 19, 2012 (by telephone conference)
 Special Meeting Executive Session Minutes

These minutes are confidential and have been prepared for the exclusive use of Victor Valley Community Hospital.

Members Present:

- Kathy Davis, Chair
- Dennis Killion, Vice Chair
- Tom Brown, Secretary
- Tim Jasper
- Michael Fermin
- Herbert Williamson, III

Others Present:

- Edward Matthews, Interim CEO
- Charlie Slyngstad, Legal Counsel
- Samuel Maizel, Bankruptcy Counsel
- George Pillari, Alvarez & Marsal
- Brian Buchanan, Alvarez & Marsal (6/19 only)
- Joshua Zazulia, Alvarez & Marsal (6/19 only)
- Sean Houseworth, Alvarez & Marsal (6/19 only)

TOPIC	DISCUSSION	ACTION
Call to Order	The Chair called the June 12, 2012 Governing Board of Directors Special Meeting Executive Session to order at 6:25 p.m. in Victorville, California.	
1. Executive Session <ul style="list-style-type: none"> • Sale and other efforts 	<p>Mr. Matthews informed the Board regarding a statement of deficiencies received by his office on June 11, 2012. The deficiencies and the development of a plan in response were discussed.</p> <p>Mr. Maizel began the discussion about ongoing efforts to find a buyer or a lender to support the Hospital in light of the delay in anticipated receipts of stabilization funds or quality assurance fees (QA fees) under the current program. Mr. Pillari noted that the Hospital has approximately \$1.7 million in cash, which is insufficient to operate beyond June 30 and pay the costs of shutting down the Hospital in an orderly fashion.</p> <p>The Board was informed regarding the status with St. Mary Medical Center and discussions with its attorney. The Hospital is still waiting for a response regarding the proposed purchase price and the amount of debtor-in-possession financing that St. Mary would provide.</p> <p>The Board discussed the option to remain a standalone facility. There has been interest expressed by Heritage regarding financing in discussion with Mr. Matthews, but substantial dollars needed by the</p>	

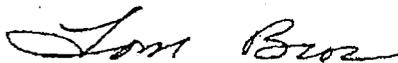
TOPIC	DISCUSSION	ACTION
<p>1. Executive Session (continued June 12)</p>	<p>Hospital have not been offered. There is another outside physician who has contact with financing sources but the discussion with him has been very preliminary by Mr. Killion, Mr. Brown, and Mr. Matthews. Nearly \$18 million is needed in the standalone option.</p> <p>Prime Healthcare Services Foundation and Prime Healthcare remain interested, but are unable to close a sale because of the Attorney General. The amount of additional financing that Prime Healthcare might provide to the Hospital is unspecified.</p> <p>Victor Valley Hospital Acquisition, Inc. (VVHA) has an offer of \$26.7 million, with the first \$7.1 million of QA fees going to unsecured creditors. VVHA's loan is only \$1 million, which Mr. Slyngstad noted is not enough to keep the Hospital open if the Attorney General review is extended beyond July. Mr. Maizel distributed to the Board a copy of a letter from counsel for the Official Committee of Unsecured Creditors in support of a VVHA transaction.</p> <p>An additional non-binding expression of interest was received by Alvarez and Marsal, financial advisor, just before the meeting. From a confidential company (which was identified and described for the Board), the offer was to enter into a binding agreement for financing by June 30, with 60 days to draft definitive documents and with exclusivity rights in the meantime preventing discussion with other parties. The numbers of the price and loan are still being developed but the offeror suggests a return of 100 cents to secured and administrative creditors, 90 cents to unsecured creditors.</p> <p>Before discussion began of the options, George Pillari of Alvarez and Marsal made clear that if there is no deal by June 30, 2012, the shut down of the Hospital must commence.</p> <p>The discussion by Board members ensued, with an emphasis on the timing of possible deals and the effect on closing that the Attorney General's review process will cause.</p> <p>Without formal vote, and without dissent, the Board did not vote on any option. Instead, the Board gave direction to counsel to place parameters of dates and amounts on viable options, and to pin down timelines. The meeting was then continued to June 19, 2012 at 8:30 p.m.</p>	

TOPIC	DISCUSSION	ACTION
<p>1. Executive Session (continued: June 19)</p>	<p>The Chair reconvened the Board meeting at 8:30 p.m. on June 19, 2012 with all members and participants in the meeting present by phone.</p> <p>Board members and counsel had been forwarded a comparison of active and inactive offers, prepared by Alvarez and Marsal, before the meeting. A copy is attached to these Minutes.</p> <p>The Board was informed regarding the status with St. Mary Medical Center and discussions with its attorney by Mr. Maizel in person in Chicago. The Hospital is still waiting for a response regarding the proposed purchase price and the amount of debtor-in-possession financing that St. Mary would provide. It is apparent that St. Mary will not respond in time.</p> <p>Alvarez and Marsal received a non-binding letter of intent and terms from a confidential company (which was identified for the Board). The price is \$35 million. The terms include 60 days of due diligence while seeking Attorney General approval, but unless there were issues with revenues or with licensing the company did not expect to terminate. The terms also will include a \$1 million break-up fee and the purchase of claims against VVHA and the turnover as an Acquired Asset of \$5.1 million held in Mr. Maizel's law firm's trust account relating to the disputes with VVHA.</p> <p>VVHA provided proof of the money available to fund the purchase of the Hospital. Pursuant to demand by VVCH's counsel, the VVHA offer now includes DIP financing of \$1 million immediately and up to \$4 million with budgets through the summer. This money cannot be used for capital improvements or attorneys' fees.</p> <p>At 8:50 p.m., the Hospital advisors and management gave their views regarding the options for the Hospital. All favored VVHA. The risk with the confidential company's offer is that there is not enough time to pursue any other alternative if that deal terminates for any reason. The passage of time and the break-up fee will raise the serious risk of liquidation in comparison to the VVHA transaction.</p> <p>Board members expressed their views, with several noting that Prime Healthcare needed to be contacted and spoken with in person before any decision was revealed.</p>	

TOPIC	DISCUSSION	ACTION
1. Executive Session (continued: June 19)	Discussion continued until 9:25 p.m. The Chair directed advisors and management not to reveal the decision of the Board until after Prime Healthcare through Dr. Prem Reddy was informed by a member of the Board concerning the Board's decision.	Motion made by Mr. Killion, seconded by Mr. Williamson, to move forward with the 2012 VVHA transaction, motion carried, 5-0, after a roll call vote.
2. Adjournment	There being no further business to discuss, the Governing Board of Directors executive session adjourned at 9:30 p.m. on June 19, 2012.	

Tom Brown, Secretary

TOPIC	DISCUSSION	ACTION
1. Executive Session (continued; June 19)	<p>Discussion continued until 9:25 p.m.</p> <p>The Chair directed advisors and management not to reveal the decision of the Board until after Prime Healthcare through Dr. Prem Reddy was informed by a member of the Board concerning the Board's decision.</p>	<p>Motion made by Mr. Killion, seconded by Mr. Williamson, to move forward with the 2012 VVHA transaction, motion carried, 5-0, after a roll call vote.</p>
2. Adjournment	<p>There being no further business to discuss, the Governing Board of Directors executive session adjourned at 9:30 p.m. on June 19, 2012.</p>	



Tom Brown, Secretary

Victor Valley Community Hospital "VVCH"

	Active		Inactive	
	7/31/2012 -	7/31/2012 ^a	7/31/2012	7/31/2012
		WHA	Prime	SMMC
1 Deal Comparison				
2				
3 Source of Cash				
4 Nominal Purchase Price	\$ 35,000,000	\$ 26,700,000	\$ 35,000,000	\$ 35,000,000
5 Contingency Reserve		500,000		
6 Total Potential Purchase Price	\$ 35,000,000	\$ 27,200,000	35,000,000	\$ 35,000,000
7				
8 Assumed Liabilities				
9 Admin & Priority				
10 Employee Obligations	\$ (2,300,000)	\$ (2,292,508)	\$ (2,292,508)	\$
11 Secured				
12 Physicians Hospital Management, LLC	\$	\$ (6,685,770)		\$
13 Corwin Medical Group, Inc.		(701,247)		
14 Department of Health Services (Medi-Cal)	(5,137,719)	(5,137,719)	(5,137,719)	
15 California Office of State Health Planning and Development				
16 Total Aggregate Assumed Liabilities	\$ (7,437,719)	\$ (14,817,244)	\$ (7,430,227)	\$
17				
18 Cash Credits				
19 Escrowed DIP Proceeds/GFD	\$	\$ (4,500,000)	\$	\$
20 Remaining balance on the GFD		(607,000)		
21 Cash Credits - DIP			(2,675,000)	(6,000,000)
22 CMS	(1,900,000)			
23 Total Cash Credits	\$ (1,900,000)	\$ (5,107,000)	\$ (2,675,000)	\$ (6,000,000)
24				
25 Cash Paid at Closing	\$ 25,662,281	\$ 7,275,756	\$ 24,894,773	\$ 29,000,000
26				
27 Cash Available at Close from Debtor's Bank Accounts				
28 Cash Available at Close Irons Debtor's Bank Accounts	\$ 330,000	\$ 328,161	328,161	\$ 328,161
29 Estimated QA receipts		7,100,000		
30 Escrowed DIP Proceeds		4,500,000		
31 Remaining balance on the GFD		607,000		
32 Total Cash Available at Close from Debtor's Bank Accounts	\$ 330,000	\$ 12,535,161	\$ 328,161	\$ 328,161
33				
34 Uses of Cash				
35 Net Cash Available for Distribution	\$ 25,992,281	\$ 19,810,918	\$ 25,222,935	\$ 29,328,161
36				
37 Superpriority Administrative Claims				
38 Prime DIP Loan	\$ 2,675,000	\$ 2,675,000	\$	\$ 2,675,000
39 Total Superpriority Administrative Claims	\$ 2,675,000	\$ 2,675,000	\$	\$ 2,675,000
40				
41 Administrative Claims				
42 Accrued Employee Payroll and PTO	\$	\$	\$	\$ 1,919,381
43 COBRA Liability				500,000
44 WARN Liability				
45 Ordinary Course Administrative	1,100,000	1,100,000	1,100,000	1,100,000
46 503(13)(9)	149,583	149,583	149,513	149,583
47 Professional Fees	800,000	800,000	800,000	800,000
48 US Trustee Fees	50,000	50,000	50,000	50,000
49 Total Administrative Claims	\$ 2,099,583	\$ 2,099,583	\$ 2,099,583	\$ 4,518,964
50				
51 Priority Tax Claims	\$ 42,664	\$ 42,664	\$ 42,664	\$ 42,664
52				
53 Cure Payments	\$ 2,911,690	\$ 2,911,690	\$ 2,911,690	\$ 2,911,690
54				
55 Secured Claims				
56 Physicians Hospital Management, LLC	\$ 6,685,770	\$	\$ 6,685,770	\$ 6,685,770
57 Corwin Medical Group, Inc.	701,247		701,247	701,247
58 Tax Claims	9,936	9,936	9,936	9,936
59 California Office of State Health Planning and Development	3,589,705	3,589,705	3,589,705	3,659,705
60 Department of Health Services (Medi-Cal)				5,137,719
61 Total Secured Claims	\$ 10,986,658	\$ 3,599,641	\$ 10,986,658	\$ 16,194,376
62				
63 Priority Non-Tax Claims	\$ 79,923	\$ 79,923	\$ 79,923	\$ 79,923
64				
65 Reserve for Disputed Claims	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
66				
67 Reserve for Liquidating Debtor and Liquidating Trustee Fees	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
68				
69 Reserve for Other Liabilities	\$	\$	\$	\$
70				
71 Total Priority Administrative and Secured Claims	\$ 18,995,618	\$ 11,608,501	\$ 16,320,518	\$ 26,622,618
72				
73 Total Surplus (Deficit) to Priority Administrative and Secured Claims	\$ 6,996,764	\$ 8,202,417	\$ 8,902,417	\$ 2,705,544
74				
75 Total Surplus (Deficit) Available to Unsecured Creditors	\$ 6,996,764	\$ 8,202,417	\$ 8,902,417	\$ 2,705,544
76				
77 General Unsecured Claims				
78 All Unsecured	\$ 7,846,952	\$ 5,726,952	\$ 7,846,952	\$ 7,846,952
79 CMS		1,900,000		1,900,000
80 Reserve for Rejection Claims				
81 Accrued Interest to Unsecured	38,401	28,026	38,401	28,026
82 Total Unsecured Claims	\$ 7,885,353	\$ 7,654,978	\$ 9,785,353	\$ 9,774,978
83				
84 Unsecured Payout @ July 31, 2012		89%		100%
85 Unsecured Payout @ August 31, 2012		89%		83%
86 Unsecured Payout @ September 30, 2012		89%		74%
87				
88 Net Cash Surplus/(Deficit) to Unsecured Creditors	\$ (888,589)	\$ 547,439	\$ (882,936)	\$ (7,069,434)
89				
90 Subordinated Unsecured Claims				
91 Physicians Hospital Management, LLC		\$ 1,720,000		
92 Corwin Medical Group, Inc.		400,000		
93 Accrued Interest on Subordinated Unsecured				
94 Total Subordinated Unsecured Claims	\$	\$ 2,120,000	\$	\$
95				
96 Subordinated Unsecured Payout		N/A		26%

The June 14th term sheet provides for 52.3 mm of additional DIP financing to be forgiven at Closing which shifts the burden of the operating losses from the creditors to the Buyer through September 30th.

^aPer the WVHA agreement any excess cash after a 100% payout to unsecureds will be returned to VVHA.

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11 mlane@pszjlaw.com

12 Attorneys for Victor Valley Community Hospital,
13 Debtor and Debtor in Possession

14 UNITED STATES BANKRUPTCY COURT
15 CENTRAL DISTRICT OF CALIFORNIA
16 SANTA ANA DIVISION

17 In re:

18 VICTOR VALLEY COMMUNITY
19 HOSPITAL,

20 Debtor.

CASE NO. 8:12-12896-CB

CHAPTER 11

**NOTICE OF FILING EXECUTED
FOURTH AMENDMENT TO ASSET
SALE AGREEMENT**

[Related to Docket No. 2162]

Hearing

Date: June 27, 2012
Time: 2:30 P.M.
Place: U.S. Bankruptcy Court
Courtroom 5D
411 West Fourth Street
Santa Ana, CA 92701
Judge: Honorable Catherine E. Bauer

1 TO THE HONORABLE CATHERINE E. BAUER , UNITED STATES
2 BANKRUPTCY JUDGE AND ALL INTERESTED PARTIES:

3 Victor Valley Community Hospital, the above-captioned Chapter 11 debtor and debtor in
4 possession (the "Debtor"), hereby submits the executed *Fourth Amendment to Asset Sale*
5 *Agreement.*

6

7 Dated: June 28, 2012

PACHULSKI STANG ZIEHL & JONES LLP

8

By /s/ Samuel R. Maizel
Samuel R. Maizel (CA Bar No. 189301)
Scotta E. McFarland (CA Bar No. 165391)
Mary D. Lane (CA Bar No. 71592)
Attorneys for Victor Valley Community
Hospital, Debtor and Debtor in Possession

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FOURTH AMENDMENT TO ASSET SALE AGREEMENT

This Fourth Amendment to Asset Sale Agreement (the "**Fourth Amendment**") is made and entered into as of June 28, 2012 ("**Amended Effective Date**") by and among Victor Valley Community Hospital, a California nonprofit public benefit corporation ("**Seller**") on the one hand, and Victor Valley Hospital Real Estate, LLC, a California limited liability corporation and Victor Valley Hospital Acquisition, Inc., a California corporation or its permitted assignee ("**Purchasers**"), on the other hand.

RECITALS

A. Seller and Purchasers are parties to an Asset Sale Agreement, dated October 29, 2010, as amended (the "**ASA**"; terms defined in the ASA are used herein as therein defined; provided that for purposes of the ASA the term Fourth Amendment shall mean this Fourth Amendment dated as of June 28, 2012), pursuant to which, among other things, Seller agreed to sell, and Purchasers agreed to buy, the Assets, including an acute care hospital located in Victorville, California.

B. On or about December 23, 2010 Seller and Purchasers amended the ASA pursuant to the Amendment to Asset Sale Agreement, dated December 23, 2010.

C. On or about February 24, 2011 Seller and Purchasers amended the ASA pursuant to the Second Amendment to Asset Sale Agreement, dated February 24, 2011.

D. On or about March 31, 2011 Seller and Purchasers amended the ASA pursuant to the Third Amendment to Asset Sale Agreement, dated March 31, 2011.

E. Purchasers had contended, in a May 25, 2011 letter from Todd Swanson to Seller ("**Purchasers' Claim Letter**"), that Seller had not, in all respects, performed its obligations under the ASA, and contended that certain conditions to closing had not been met ("**Purchasers' Prior Contentions**") which Seller has disputed. Seller, in a letter dated July 5, 2011 ("**Seller's Claim Letter**"), contended that Purchasers were in material breach of the ASA and had failed to satisfy conditions and close the transaction, and purported to terminate the ASA, as amended ("**Seller's Prior Contentions**"). In connection with, and as part of the consideration for entering into, this Fourth Amendment, Seller and Purchasers also desire to settle their disputes with respect to the Purchaser's Prior Contentions and Seller's Prior Contentions.

F. Seller and Purchasers have now agreed, with the support of the Creditors Committee, to proceed with the sale and purchase of the Seller's Assets pursuant to the ASA, as further amended by this Fourth Amendment.

G. The Bankruptcy Court has previously approved on May 26, 2011 a Fourth Amendment to the ASA (the "**Prior Fourth Amendment**") but such amendment was never implemented. This Fourth Amendment supersedes and restates in its entirety the Prior Fourth Amendment.

AMENDMENT

1. Section 1.2 of the ASA (Purchase Price) is hereby amended in its entirety to read as follows:

1.2 Purchase Price. Subject to the terms and conditions of this Agreement, the aggregate purchase price to be paid by Purchasers to Seller for the purchase of the Assets shall be Twenty-Six Million Seven Hundred Thousand Dollars (\$26,700,000.00) (the "**Purchase Price**"), subject to adjustments as provided for in this Agreement, including, without limitation, in Section 1.10(b). The Purchase Price consists of the following: (a) a debt assumption component comprised of (1) the assumption of the balance due at Closing, up to Six Million One Hundred Thousand Dollars (\$6,100,000), under the Medi-Cal Liability, plus (2) the assumption of the Accrued Payroll and Accrued Paid Time Off owed at Closing by Seller, plus (3) the assumption of the Physicians' Hospital Secured Claim and the Corwin Secured Claim (the "**Secured Claims**") at Closing assumed by Purchasers (the aggregate amount of the debt assumption component in (a) is estimated to be approximately Fourteen Million Four Hundred Thousand Dollars (\$14,400,000) and is referred to collectively as the "**Assumed Debt**"), plus (b) the remainder of the Purchase Price consideration in cash (currently estimated to be approximately Twelve Million Three Hundred Thousand Dollars (\$12,300,000)) (the "**Cash Purchase Price**"). To the extent that, for whatever reason, Purchasers are unable to assume the Secured Claims and/or are unable to otherwise procure a full release for Seller with respect to the Secured Claims, the Cash Purchase Price shall be increased dollar for dollar for each dollar that must be paid by the Seller at Closing on account of the Secured Claims. The payment of the Cash Purchase Price at Closing shall be governed by Section 1.6.1. The Good Faith Deposit funds, as further addressed at Section 1.3, shall be credited toward the Cash Purchase Price.

2. Section 1.3 of the ASA (Good Faith Deposit) is hereby amended in its entirety to read as follows:

1.3 Good Faith Deposit. Purchasers originally delivered to counsel to the Seller, Pachulski Stang Ziehl & Jones LLP ("**PSZJ Counsel**"), and/or to Escrow a deposit of Five Million Dollars (\$5,000,000) (the "**Initial Good Faith Deposit**" or "**Initial Deposit**"). The Initial Good Faith Deposit was used as provided in paragraph 3(d) of the Order Authorizing the Sale of Substantially All of the Debtor's Assets Free and Clear of Liens, Claims, Encumbrances and Interests etc. entered on December 3, 2010 (the "**Sale Order**"), to fund a Debtor-in-Possession Loan made by Purchasers to Seller ("**DIP Loan**"). PSZJ Counsel, pursuant to a court-approved stipulation, Docket No. 1605 currently holds in escrow the amount of \$5,100,000 ("**PSZJ Escrow Amount**") related to the Initial Deposit and/or the DIP Loan ("**DIP Amount**"). Subsequently, Purchasers have delivered to the trust account of Weiss and Spees, LLC ("**Weiss Trust Account**") an additional cash deposit in the amount of \$5,000,000 (the "**Additional Good Faith Deposit**" or "**Additional Deposit**"); with the Initial Deposit and Additional Deposit referred to collectively as the "**Good Faith Deposit**" or "**Deposit**"). Any funds constituting all or a portion of the Good Faith Deposit that are now or in the future held by First American Title ("**Escrow**") will be held pursuant to the terms

of the Restated Good Faith Deposit Agreement, consistent with the provisions of the Fourth Amendment to the Asset Sale Agreement ("**Fourth Amendment**") dated effective as of June 28, 2012 (the "**Fourth Amendment Effective Date**"), executed by Seller, Purchasers and First American Title prior to or concurrent with the deposit of such funds. In addition, Purchasers have provided Seller reasonable evidence that all additional funds necessary to cover the portion of the Cash Purchase Price in excess of the Good Faith Deposit have been placed into an unrestricted VVHA bank account, so as to be available to close the transactions pursuant to this Agreement. The DIP Amount and remaining amount of the Initial Deposit shall continue to be held in trust by PSZJ Counsel. The Additional Good Faith Deposit is non-refundable, regardless of the termination of this Agreement pursuant to Section 9.1, except that Purchasers shall be entitled to the return of the Additional Good Faith Deposit in the event that Purchasers terminate this Agreement pursuant to the terms set forth in Sections 9.1(c), 9.1(d), 9.1(g), 9.1(h), 9.1(i) or 9.1(j) or Seller and Purchasers terminate this Agreement pursuant to Section 9.1(a) or Seller or Purchasers terminate this Agreement pursuant to Section 9.1(f) or Seller terminates this Agreement pursuant to Section 9.1(h) due to failure to obtain the California Attorney General approval of the Fourth Amendment, and this Agreement as so amended, or failure to obtain necessary Court approval of the Fourth Amendment, and this Agreement as so amended, or other failure not based on Purchasers' breach of their obligations under this Agreement. In the event the Closing occurs, the Good Faith Deposit (including the remaining amount of the DIP Amount), the outstanding amount of the Updated DIP Amount (as defined below) and the remainder of the Deposit shall be utilized for payment of, and/or credited against, the Cash Purchase Price. The Purchasers shall be responsible to fund the remainder of the Cash Purchase Price at Closing.

In the event of termination of this Agreement pursuant to Section 9.1, the refundability of the Initial Good Faith Deposit, including the DIP Amount and the remainder of the Initial Deposit, shall be controlled by the terms of the Good Faith Deposit Agreement, the DIP Loan documents (and the orders entered by the Court with respect to the DIP Loan) and the terms of this Agreement without regard to the provisions of the Fourth Amendment, respectively. Until the sale contemplated by this Agreement Closes, pursuant to the terms of this Agreement, nothing contained in this Agreement, or the Fourth Amendment, or the fact that the DIP Amount and or remaining Initial Deposit is held in trust by PSZJ Counsel pending the closing of the sale shall alter or affect the rights, claims and remedies of the Seller and Purchasers with respect to the allegations of breach of the Agreement, or with respect to the Initial Good Faith Deposit, the DIP Amount or the remaining amount of the Initial Deposit, including without limitation, of Purchasers in respect of any orders entered by the Court with respect to the DIP Loan made by Purchasers to Seller.

In recognition of Seller's need for additional working capital, to support the Hospital's operations until the Closing Date, Purchasers and Seller have entered into an extension and amendment of the DIP Loan (the "**Updated DIP Loan**"), pursuant to that certain proposed Fourth Amendment to and Agreement With Respect to Post Petition Revolving Credit and Security Agreement ("**DIP**

Fourth Amendment") and Order approving the Updated DIP Loan being separately filed with the Court ("DIP Loan Extension Order"). The Updated DIP Loan provides for the advancing of funds in an initial amount of One Million Dollars (\$1,000,000), by June 30, 2012 and subsequent monthly advances of up to One Million Dollars (\$1,000,000) (each an "Updated DIP Loan Advance"; collectively, the "Updated DIP Loan Advances") to the extent the Closing Date is extended beyond July 31, 2012, as addressed at Section 1.4 to be used to meet Seller's current operating expenses for the immediately preceding month provided they are consistent with the budget reasonably approved by Purchasers in the first week each month subsequent to June, 2012, to the extent that the Seller's receipts are insufficient to such pay operating expenses, and provided further that the maximum amount of all Updated DIP Loan Advances, in the aggregate, shall be Four Million Dollars (\$4,000,000) (the "Updated DIP Loan Limit"). The Updated DIP Loan Advances after the initial Updated DIP Loan Advance shall be made pursuant to a budget reasonably approved by the Purchasers. The total amounts owing to the Purchasers pursuant to the Updated DIP Loan shall be referred to as the "Updated DIP Amount" and each Updated DIP Loan Advance shall be funded by or on behalf of the Purchaser as follows: 50% from funds held as the PSZJ Escrow Amount by PSZJ Counsel and 50% from funds held as the Additional Deposit in the Weiss Trust Account, and thus such advances shall decrease the size of the Deposit. Purchasers will have no obligation to replenish the amount of the Deposit as the result of such use and the amount of the Deposit to be credited against the Cash Purchase Price shall remain \$10.1 million regardless of the use of the DIP Amount and the funds from the Additional Deposit to fund the Updated DIP Loan Advances.

The actual terms and conditions of the Updated DIP Loan shall be as set forth in the DIP Fourth Amendment and in the DIP Loan Extension Order.

3. Section 1.4 of the ASA (Closing Date) is hereby amended in its entirety to read as follows:

1.4. Closing Date. The consummation of the transactions contemplated by this Agreement (the "Closing") shall take place at 9:00 a.m. local time on July 31, 2012, at the offices of Hooper, Lundy & Bookman, Inc. at 1875 Century Park East, Suite 1600, Los Angeles, California 90067, or at such other place and time as the Parties mutually agree ("Closing Date"); provided, however, that all conditions precedent and other matters required to be completed by the parties as of the Closing Date have been or will be completed on such date. However, subject to Section 9.1(h), the Closing Date shall be extended, for successive monthly periods (i.e. until the end of the subsequent month for each extension) if the Closing has not occurred because the Parties have not yet received the Attorney General's approval of the Fourth Amendment, and the Agreement as thereby modified, as required herein, and this Agreement has not otherwise been terminated. However, for each month by which the Closing Date is extended pursuant to the preceding, the Purchasers shall provide Seller an additional Updated DIP Loan Advance of up to One Million Dollars to the extent needed by Seller, and which will solely be used by Seller, to meet Seller's current operational needs not covered by Seller's receipts for that month, and subject, in

all cases, to the Updated DIP Loan Limit and the terms of the DIP Fourth Amendment and DIP Loan Extension Order. However, in the event that Purchasers have not, as of the Closing Date, obtained a new license from the California Department of Public Health and Medicare and Medi-Cal certification by the Centers for Medicare Services or any other Licenses, the Closing shall nevertheless occur, but Seller and Purchasers shall, to the extent legally permissible, enter into an Interim Management and Lease Agreement. The Closing with respect to the Hospital shall be deemed to have occurred and to be effective as between the parties as of 12:00:01 a.m. Pacific time on the next day after the Closing Date (the "Effective Time"), and Purchasers will, subject to the terms of the Interim Management and Lease Agreement, take possession of, own and operate the Hospital beginning on the Effective Time.

4. Section 1.8(l) of the ASA (Acquired Assets) is hereby amended in its entirety to read as follows:

all Medi-Cal disproportionate share replacement payments (Welfare & Institutions Code § 14166.11) received on and after June 1, 2012 ("Payments Transition Date") (the "DSH Payments"), regardless of the State fiscal year for which the DSH Payments are made in reference to and regardless of the State fiscal year for which the data was derived to calculate eligibility for such payments. The parties acknowledge and agree that DSH Payments are determined by Medi-Cal for a particular fiscal year based on data reported for a previous State fiscal year(s). Notwithstanding the foregoing, the parties hereby confirm that it is the express intent of the parties that Purchasers shall receive the benefit of all DSH Payments received on and after the Payments Transition Date regardless of whether the payments are made in reference to a State fiscal year prior to the Payments Transition Date and regardless of whether the DSH Payments were calculated based on data reported for a State fiscal year prior to the Payments Transition Date.

5. Section 1.8(m) of the ASA (Acquired Assets) is hereby amended in its entirety to read as follows:

all Medi-Cal supplemental payments (Welfare & Institutions Code § 14666.12), and payments from the State of California known as distressed hospital funds (together with Medi-Cal supplemental payments, received on and after the Payments Transition Date (the "Supplemental Payments"), regardless of the State fiscal year for which the Supplemental Payments are made in reference to and regardless of the State fiscal year for which the data was derived to calculate eligibility for such payments. The parties acknowledge and agree that Supplemental Payments are made to an eligible hospital for a State fiscal year, and that payments for a particular State fiscal year may be made during or after such state fiscal year. Notwithstanding the foregoing, the parties hereby confirm that it is the express intent of the parties that Purchasers shall receive the benefit of all Supplemental Payments received on and after the Payments Transition Date regardless of whether the payments are made in reference to a State fiscal year prior to the Payments Transition Date and regardless of whether the Supplemental Payments were calculated based on data reported for a State fiscal year prior to the Payments Transition Date;

6. Section 1.8(n) of the ASA (Acquired Assets) is hereby amended in its entirety to read as follows:

(n) all payments made pursuant to the Medi-Cal Hospital Provider Rate Stabilization Act (Chapter 627, Statutes of 2009, Assembly Bill 1383; October 1, 2009) (Welfare & Institutions Code Sections 14167.1 — 14167.17), all payments made pursuant to the Medi-Cal Hospital Rate Stabilization Act of 2011, as a result of Senate Bill 90, and all payments pursuant to similar or follow-on quality assurance or rate stabilization legislation, including without limitation Senate Bill 335 (collectively, the "QA Follow-on Legislation") and from the Hospital Quality Assurance Revenue Fund received on and after the Payments Transition Date (collectively, the "Stabilization Payments"), regardless of the fiscal year or period for which the Stabilization Payments are made in reference to and regardless of the fiscal year or period for which the data was derived to calculate the eligibility for or amount of the Stabilization Payments, subject to Section 1.9 (u) of this Agreement and the Special Payment Threshold. The parties acknowledge and agree that Stabilization Payments are made to an eligible hospital for a state fiscal year, and that payments for a particular state fiscal year may be made during or after such state fiscal year. Notwithstanding the foregoing, the parties hereby confirm that it is the express intent of the parties that Purchasers shall receive the benefit of all Stabilization Payments received on and after the Payments Transition Date regardless of whether the payments are made in reference to a State fiscal year prior to the Payments Transition Date, subject only to Section 1.9 (u) of this Agreement and the Special Payment Threshold. For sake of clarity, it is acknowledged and agreed that all of the Stabilization Payments received by or for the Hospital shall constitute Assets acquired by the Purchasers, subject to Section 1.9(u) of this Agreement and the Special Payment Threshold.

7. Section 1.8(u) of the ASA (Acquired Assets) is hereby amended in its entirety to read as follows:

(u) except as excluded by Section 1.9(s) or included in Schedule 1.9(t), all rights, claims and choses in action of Seller, its bankruptcy estate and Seller's affiliates including, without limitation, all rights, claims and choses of action of Seller, its bankruptcy estate and Seller's affiliates related to and/or arising out of the Accounts Receivable, and/or related to and/or arising out of (i) the relationship and agreements between Seller and Corwin Medical Group, Inc., IPA, and its affiliates, owners, members, partners, managers, directors, officers and employees (excluding Physicians Hospital Management, LLC), (ii) the relationship and agreements between Seller and Victor Valley Hospital Acquisition, Inc and/or Victor Valley Hospital Real Estate, LLC, and their respective affiliates, owners, members, partners, managers, directors, officers, agents and employees (collectively, "Purchaser Parties"); provided, however, that nothing herein shall be interpreted to impair the Seller's rights to use available defenses, offsets and claims the Seller has against Corwin, as applicable, in the defense of, and as an offset against, any claims asserted against the Seller or the Seller's estate by Corwin;

8. Section 1.9 of the ASA is amended to add the following new subsection (u) (and existing Section 1.9(u) shall become Section 1.9(v)):

(u) notwithstanding Section 1.8(n) above, the first Seven Million One Hundred Thousand Dollars (\$7,100,000) of Pending Stabilization Payments (as defined below) (the "Special Payment Threshold") in the aggregate paid and actually received on or after the Payments Transition Date shall be an Excluded Asset and shall be retained by Seller if received prior to the Effective Time and shall be turned over to Seller, or its successor, by Purchasers if actually received after the Effective Time. For purposes of the preceding, "Pending Stabilization Payments" shall mean only those Stabilization Payments which have accrued with respect to, and are payable in connection with, the period prior to the Payments Transition Date. Because the QA Follow-on Legislation may not specify allocation of net proceeds over the full period covered by such QA Follow-on Legislation, in a manner that enables the clear allocation of Stabilization Payments thereunder as between the periods prior to, and on and after, the Payments Transition Date, the total Stabilization Payments shall be deemed to be applied on a pro rata basis, in equal monthly allotments, over the full applicable term of each QA Follow-on Legislation, and the Pending Stabilization Fees shall be calculated based on such pro rata, equal monthly allocation.

9. Section 1.10(e) of the ASA is amended in its entirety to read as follows:

(e) all liabilities of Seller relating to the Seller Cost Reports with respect to periods ending prior to the Effective Time other than and excluding liabilities relating to Medi-Cal cost reports and related liabilities;

10. Section 1.11 (Excluded Liabilities) is hereby amended to add the following new subsection (o):

(o) all liabilities of Seller for cost report liabilities not covered by the CMS Settlement which are related to the number of licensed beds at the Acute Care Hospital during the period of October 1, 2009 to the Closing Date, *provided, however,* that such liabilities shall not exceed Five Hundred Thousand Dollars (\$500,000.00) and that Seller shall be relieved of any such liabilities as between Seller and Purchaser as of June 30, 2012.

11. Article 2 of the ASA (Seller's Representations) is hereby amended by addition of the following language to the end of the initial, introductory sentence thereof:

and Seller shall be deemed to remake all of the following representations, warranties and covenants as of the Closing Date:

12. Section 2.7(b) of the ASA is amended by addition of the following to the end of this Section:

As of the Payments Transition Date, the Hospital currently meets applicable requirement to have 100 beds or more as sufficient for the Hospital to be treated more favorably than hospitals with fewer than 100 beds for purposes of payments under the Medicare Disproportionate Share program, under applicable laws and regulations including without limitation pursuant to 42 U.S.C.

§ 1395ww(d)(5)(F) and, except for matters settled pursuant to the CMS Settlement (addressed at Section 8.10), the Hospital has not submitted any billings, or received any payments, not permitted under the Medicare Disproportionate Share program, as noted above.

13. Section 4.4 of the ASA (Cooperation) is hereby amended by addition of the following to the end of such section:

In addition, Seller shall, to the extent necessary in the Purchasers' discretion, (i) cause any previous motions or court orders related to assumption or rejection of contracts or leases or related to similar closing actions which were undertaken previously in contemplation of Purchasers closing on the transactions pursuant to this Agreement ("**Purchaser Directed Actions**"), to be re-affirmed or, if needed, re-submitted and approved, (ii) cause to be canceled, voided or vacated any previous motions or entered court orders that have been undertaken in conjunction with any other sales of the Assets to potential purchasers, or otherwise, that are inconsistent with the Purchaser Directed Actions and (iii) pursue any similar actions which the parties reasonably deem necessary to finalize and implement the Purchaser Directed Actions. In addition, Seller shall, promptly, upon receipt of the Updated Court Approval, and on or prior to Closing terminate any purchase contracts, options or similar rights or conditional rights of third parties with respect to the Acquired Assets and Hospital or which otherwise conflict with Seller's obligations pursuant to this Agreement, and terminate, on or before the Closing, the Asset Sale Agreement dated as of July 5, 2011 with Prime Healthcare Services Foundation, Inc., and the Consulting Agreement dated effective as of November 1, 2011 (the "**Prime Consulting Agreement**") and the Debtor in Possession Loan Agreement dated as of October 14, 2011 (the "**Prime DIP Loan Agreement**") with Prime Healthcare Management, Inc. or any of its affiliates, and undertake any Court filings or motions or other actions necessary or advisable to effectuate such terminations.

14. Section 5.11 of the ASA (Attorney General Approval) is hereby amended by adding the following to the end thereof:

Seller and Purchasers agree to cooperate and use good faith efforts to obtain the California Attorney General's approval of the transactions contemplated by the Agreement, as amended, including without limitation, the amendments contained in the Fourth Amendment, subject to conditions that are acceptable to Purchasers in their reasonable discretion.

15. Section 7.6 of the ASA (Attorney General Approval) is hereby amended in its entirety to read as follows:

7.6 Attorney General Approval. The California Attorney General shall have approved the transactions contemplated by the Agreement, as amended, including without limitation, the amendments contained in the Fourth Amendment, subject to conditions that are acceptable to Seller in its reasonable discretion.

16. Article 7 of the ASA is hereby amended to add the following new Sections 7.8, and 7.9:

7.8 The Bankruptcy Court shall have entered an order, or orders in form and substance acceptable to Seller in its reasonable discretion, which order shall, among other things, (i) approve the Fourth Amendment and this Agreement as so amended and (ii) authorize the Sale pursuant to the terms of this Agreement as so amended by the Fourth Amendment.

7.9 Seller has sufficient cash at Closing, including from the Cash Purchase Price, to pay off the secured loan to the California Office of Statewide Health Planning and Development, with approximately \$3,599,641 currently outstanding ("**Secured OSHPD Claim**"), to pay all amounts due and outstanding under or in respect of the Prime DIP Loan Agreement and the Prime Consulting Agreement and to pay all amounts and payments required to be made as cure payments in connection with the assumption and assignment of the Assumed Contracts and Assumed Leases.

17. Section 8.7 of the ASA (Attorney General Approval) is hereby amended in its entirety to read as follows:

8.7 Attorney General Approval. The California Attorney General shall have approved the transactions contemplated by this Agreement, as amended, including without limitation, the amendments contained in the Fourth Amendment, subject to conditions that are acceptable to Purchasers in their reasonable discretion.

18. Article 8 of the ASA is hereby amended to add the following new Sections 8.8, 8.9 and 8.10:

8.8 The Bankruptcy Court shall have entered an order (the "**Updated Court Approval**" and the date of entry of such order the "**Updated Court Approval Date**") in form and substance acceptable to the Purchasers in their reasonable discretion approving the Sale and the Fourth Amendment, and which order shall, among other things, (i) include findings as to the good faith of the Purchasers and the fairness of the terms of the Sale transaction and this Agreement as amended by the Fourth Amendment, (ii) approve the Fourth Amendment and the Agreement as so amended, including the releases, and (iii) authorize the Sale free and clear of all claims, liens, encumbrances and interests, including any claims, liens, encumbrances and interests incurred after the Petition Date, pursuant to the terms of this Agreement as so amended by the Fourth Amendment, and such order shall have become a Final Order; provided that the Purchasers may waive the requirement that the order be a Final Order.

8.9 The Bankruptcy Court shall have entered an order, prior to July 31, 2012, in form and substance satisfactory to the Purchasers in their reasonable discretion, approving a stipulated agreement, in form and substance satisfactory to the Purchasers in their reasonable discretion, by and among the Seller, the Purchasers and the Federal Government (the "**CMS Settlement**") which provides for the assumption by the Seller and the assignment to the Purchasers of the

Seller's Medicare Provider Agreement and provider number without Purchasers incurring successor liability for the known Medicare Disproportionate Share or other Seller Cost Report liabilities for periods at least prior to October 1, 2009 provided that such release may be subject to the general qualifications typically or customarily required by CMS in its settlements (the "CMS Agreement").

8.10 Seller (a) has sufficient cash at Closing, including from the Cash Purchase Price, to pay in full the secured debt owed to the California Office of Statewide Health Planning and Development, to pay all amounts due and outstanding under or in respect of the Prime DIP Loan Agreement and the Prime Consulting Agreement and to pay all amounts and payments required to be made as cure payments in connection with the assumption and assignment of the Assumed Contracts and Assumed Leases, including any payments due under the CMS Settlement, and (b) has, to the satisfaction of Purchasers, arranged or provided for the payment in full of the obligations set forth in (a) above at the Closing.

19. Section 9.1(f) of the ASA (Court Approval) is hereby amended in its entirety to read as follows:

(f) by either Purchasers or Seller if the Bankruptcy Court enters an order dismissing the Bankruptcy Case or the Updated Court Approval Date (as defined in Section 8.8) has not occurred by July 16, 2012.

20. Section 9.1(h) of the ASA (Termination Date) is hereby amended in its entirety to read as follows:

(h) by either Purchasers or Seller if the Closing has not occurred (other than through the failure of any party seeking to terminate this Agreement to comply fully with its obligations under this Agreement) on or before September 30, 2012 (the "Termination Date").

21. Section 9.1 (Termination) of the ASA is hereby amended to add the following new subsections (i) and (j):

(i) by Purchasers if the condition, at Section 8.7, that the California Attorney General shall have approved the transactions contemplated by this Agreement, as amended by the Fourth Amendment and as further addressed therein has not occurred on or before the Closing Date.

(j) by Purchasers if the Hospital, prior to Closing, loses its CLIA certification for the Hospital, through the termination by CMS of its forbearance on suspension or other remedies related to previously raised issues over the CLIA or otherwise, or CMS indicates that it will not or cannot maintain Seller's CLIA certification after Closing through the term of the Interim Management and Lease Agreement.

22. Section 11.2.2(a)(v) of the ASA is amended by addition of the following language to the end of this provision:

; provided, however, that neither this Section 11.2.2(a)(v) nor Section 11.2.2(a)(iv) shall limit or restrict any of Purchaser's indemnification rights related to, or based upon Medi-Cal and related liabilities, with respect to periods ending prior to the Effective Time or other Excluded Liabilities.

23. In connection with this Fourth Amendment, Seller and Purchasers agree to settle their disputes with respect to the Purchaser's Prior Contentions and Seller's Prior Contentions, as follows, all as further addressed in that certain Settlement Agreement attached as Exhibit A to this Fourth Amendment ("Settlement Agreement"), which settlement will be effective concurrent with and conditioned on the Closing under the ASA, as hereby amended, which the parties agree to sign and deliver concurrent herewith:

a. Seller, on behalf of itself and on behalf of the Seller's bankruptcy estate, and on behalf of all representatives, successors and assigns of the Seller and the Seller's bankruptcy estate, including the Committee and any trustee appointed by in the Bankruptcy Case, agrees to (i) release and discharge Purchasers (and their respective affiliates, parents, subsidiaries, shareholders, officers, directors, employees, agents, attorneys, predecessors, successors and assigns) from any and all claims contained as part of Seller's Prior Contentions, including without limitation claims and related causes of action based on Purchasers' breach of their obligations under the ASA, and failure of closing conditions within Purchasers' control under the ASA, in connection with Purchasers' not closing under the ASA on June 1, 2011, or thereafter, and (ii) waive and rescind the purported termination of the ASA by Seller, as addressed in Seller's Claim Letter.

b. Purchasers agree to (i) release and discharge Seller (and its respective affiliates, parents, subsidiaries, shareholders, officers, directors, employees, agents, attorneys, predecessors, successors and assigns) from any and all claims contained as part of Seller's Prior Contentions, including without limitation claims of breach by Seller of its representations and obligations under Sections 2.9 and 4.5 of the ASA, based upon claimed material discrepancies and irregularities with Seller's Financial Statements (as defined in the ASA) and claims of breach by Seller of its regulatory representations and (ii) waive and rescind the claimed failures of conditions to Purchasers' obligation to close as set forth in the Purchasers' Claim Letter.

However, the releases summarized and contemplated pursuant to this Fourth Amendment are not intended to, and shall not, release the parties of their obligations to proceed with the transactions, or otherwise perform their obligations, pursuant to the terms of the ASA, or prospectively limit the terms and conditions of the ASA, as amended by this Fourth Amendment and the earlier amendments. In addition, the releases will be specifically documented pursuant to the attached Settlement Agreement, the terms of which shall control in the event of any conflict between the above summary agreement and the Settlement Agreement terms. The releases and waivers contained herein, and the Settlement Agreement, shall be subject to the same conditions to, and timing of, effectiveness, as addressed at Paragraph 26 for the effectiveness of the Fourth Amendment as a whole and the condition that they will only be effective upon the Closing under the ASA.

24. The ASA is hereby amended to replace Exhibit 1.5.10 to the ASA with Exhibit 1.5.10 attached hereto.

25. For purposes of this Fourth Amendment and the ASA, the term Final Order shall mean an order or judgment entered by the Bankruptcy Court or any other court exercising jurisdiction over the subject matter and the parties: (i) that has not been reversed, rescinded, stayed, modified or amended; (ii) as to which no appeal, certiorari proceeding, petition for re-argument or review, or request for other review or rehearing has been filed, requested or is pending; and (iii) as to which the time for filing a notice of appeal or a request or petition for certiorari, review, re-argument or rehearing shall have expired.

26. Notwithstanding any other term herein, the effectiveness of this Fourth Amendment (and the agreements to be delivered in connection with this Fourth Amendment, including without limitation the Settlement Agreement (collectively, the "Ancillary Agreements"), and of the obligations of the Purchasers hereunder and under the Ancillary Agreements, and to close the Sale under the terms of the ASA, as so amended, is contingent upon (a) the execution and delivery by Seller of the Settlement Agreement and this Fourth Amendment, (b) the entry of an order prior July 16, 2012, in form and substance acceptable to the Purchasers in their reasonable discretion, approving the Sale and the Fourth Amendment, and which order shall, among other things, (i) include findings as to the good faith of the Purchasers and the fairness of the Sale transaction and the ASA as amended by this Fourth Amendment, (ii) approve this Fourth Amendment (including the Settlement Agreement, the other Ancillary Agreements and the contemplated releases) and the ASA as so amended, and (iii) authorize the Sale, free and clear of all liens, claims, encumbrances and interests, including any liens, claims, encumbrances and interests incurred after the Petition Date, pursuant to the terms of the ASA as so amended by this Fourth Amendment, and such order shall have become a Final Order; provided that the Purchasers may waive the requirement that the order be a Final Order, and (c) the entry of the DIP Loan Extension Order prior to July 16, 2012 and such order shall have become a Final Order; provided that the Purchasers may waive the requirement that the order be a Final Order.

27. Except to the extent expressly set forth in this Fourth Amendment, all of the provisions of the ASA, as previously amended, are, and shall continue to be, in full force and effect in accordance with their respective terms, and each of Seller and Purchasers shall remain obligated to comply with all of such party's obligations contained in the ASA, and all references in the ASA to the "Agreement" shall be deemed to be references to the Agreement as amended, including without limitation by this Fourth Amendment. By signing this Fourth Amendment both Seller and Purchasers are reaffirming the existence of the Agreement, as amended by this Fourth Amendment and the prior amendments (except the Prior Fourth Amendment), and that it is a binding agreement among such parties. In the event of any conflict between the terms of this Fourth Amendment and the terms of the ASA and prior amendments thereto, including without limitation in the Prior Fourth Amendment, the terms in this Fourth Amendment shall be controlling and supersede such conflicting terms.

28. This Fourth Amendment may be executed by one or more of the parties hereto on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

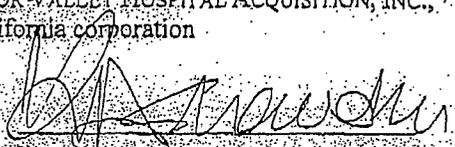
IN WITNESS WHEREOF, this Fourth Amendment has been duly executed by the parties set forth below as of the date first written above.

PURCHASERS:

SELLER:

VICTOR VALLEY HOSPITAL ACQUISITION, INC.,
a California corporation

VICTOR VALLEY COMMUNITY HOSPITAL,
a California corporation

By: 

By: _____

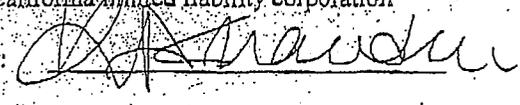
Name: _____

Name: _____

Title: Chairman and CEO

Its: _____

VICTOR VALLEY HOSPITAL REAL ESTATE, LLC,
a California limited liability corporation

By: 

Name: _____

Title: Manager

IN WITNESS WHEREOF, this Fourth Amendment has been duly executed by the parties
set forth below as of the date first written above.

PURCHASERS:

VICTOR VALLEY HOSPITAL ACQUISITION, INC.,
a California corporation

By: _____

Name: _____

Title: Chairman and CEO

VICTOR VALLEY HOSPITAL REAL ESTATE, LLC,
a California limited liability corporation

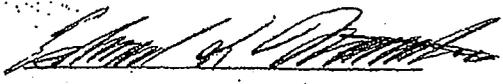
By: _____

Name: _____

Title: Manager

SELLER:

VICTOR VALLEY COMMUNITY HOSPITAL,
a California corporation

By: 

Name: Edward T. Matthews

Title: Interim Chief Executive Officer

EXHIBIT A

SETTLEMENT AND RELEASE

This Settlement Agreement and Release ("Release") is entered into as of [_____, 2012] ("Amended Effective Date") by and among Victor Valley Community Hospital, a California nonprofit public benefit corporation ("Seller") on the one hand, and Victor Valley Hospital Real Estate, LLC, a California limited liability corporation and Victor Valley Hospital Acquisition, Inc., a California corporation or its permitted assignee ("Purchasers"), on the other hand (Seller and Purchasers are collectively referred to herein as the "Parties").

A. The Parties entered into an Asset Sale Agreement, dated October 29, 2010, as amended (the "ASA", terms defined in the ASA are used herein as therein defined), pursuant to which, among other things, Seller agreed to sell, and Purchasers agreed to buy an acute care hospital located in Victorville, California.

B. On or about December 23, 2010, the Parties amended the ASA pursuant to the Amendment to Asset Sale Agreement, dated December 23, 2010.

C. On or about February 24, 2011, the Parties amended the ASA pursuant to the Second Amendment to Asset Sale Agreement, dated February 24, 2011.

D. On or about March 31, 2011, the Parties amended the ASA pursuant to the Third Amendment to Asset Sale Agreement, dated March 31, 2011.

E. In or about May of 2011, the Parties agreed upon the form of, and the Attorney General of California conditionally approved, a Fourth Amendment to Asset Sale Agreement, and all Exhibits thereto ("2011 Fourth Amendment"). The 2011 Fourth Amendment was not executed by the Parties and is superceded for any and all purposes by the new Fourth Amendment which was agreed upon by the Parties in June, 2012 ("Fourth Amendment") pursuant to which this Release is being delivered concurrent with the Closing (as defined in the ASA, as amended) of the transaction pursuant to the ASA, as amended including pursuant to the Fourth Amendment.

F. For reasons explained in a letter sent to Seller by Todd E. Swanson on or about May 25, 2011 ("May 25 Letter"), Purchasers contend, among other things, that Seller had not, in all respects, performed its obligations under the ASA, and contend that certain conditions to closing had not been met.

G. For reasons explained in a letter sent to Purchasers by Charles E. Slyngstad on or about May 27, 2011 ("May 27 Letter"), Seller contends, among other things, that Purchasers' notice of breach contained in the May 25, 2011 Letter was defective because Seller had not breached the ASA and there had been no failure of conditions.

H. For reasons explained in a letter sent to Purchasers by Charles E. Slyngstad on or about July 5, 2011 ("July 5 Letter"), Seller contends that it terminated the ASA, as then

amended, and among other things, that Purchasers were in material breach of the ASA and had failed to satisfy conditions and close the transaction.

I. For reasons explained in a letter sent to Seller by Todd E. Swanson on or about July 14, 2011 ("**July 14 Letter**"), Purchasers contend that Seller's termination of the ASA was not proper.

In connection with, and as part of the consideration for entering into, the Fourth Amendment, the Parties desire to settle their disputes with respect to the Parties' respective contentions described in Paragraphs F through I of this Release concurrent with the Closing of the transaction pursuant to the ASA, as amended including pursuant to the Fourth Amendment.

NOW THEREFORE, in consideration of the mutual promises contained herein and in the accompanying Fourth Amendment, and for good consideration, the sufficiency of which is hereby acknowledged, the Parties agree as follows, effective, with no further actions required by any of the Parties or any other party, concurrent with and upon the Closing of the transaction pursuant to the ASA, as amended including pursuant to the Fourth Amendment:

1. Claims Released By Seller. Except for a claim to enforce the terms of this Release, or as otherwise provided herein, Seller on behalf of itself and its bankruptcy estate, and on behalf of the Seller's officers, directors, professionals, agents, employees, the bankruptcy estate's representatives and potential representatives, and any successors to the Seller or its bankruptcy estate (including any trustee appointed or selected in Seller's bankruptcy case), and the Committee ("**Seller Releasees**") hereby agrees to and does fully and irrevocably release and forever discharge Purchasers and their respective affiliates, parents, subsidiaries, shareholders, members, managers, officers, directors, employees, agents, attorneys, predecessors, successors and assigns ("**Purchaser Releasees**") from and against any and all claims, liabilities, demands, obligations, losses, causes of action and suits of any kind or nature, whether known or unknown, which any of them has, had or might have against Purchaser Releasees that arose, if at all, before the Amended Effective Date including but not limited to the alleged breaches of the ASA specifically identified by Seller in the July 5 Letter.

2. Seller Rescinds Purported Termination of ASA. Seller waives and rescinds the purported termination of the ASA by Seller, as addressed in the July 5 letter.

3. Claims Released By Purchasers. Except for a claim to enforce the terms of this Release, or as otherwise provided herein, Purchaser Releasees hereby agrees to and does fully and irrevocably release and forever discharge Seller Releasees from and against any and all claims, liabilities, demands, obligations, losses, causes of action and suits of any kind or nature, whether known or unknown, which any of them has, had or might have against Seller Releasees that arose, if at all, before the Amended Effective Date, including without limitation those identified in the May 25 Letter and any other claims of breach by Seller of its representations and obligations under Sections 2.9 and 4.5 of the ASA, based upon claimed material discrepancies and irregularities with Seller's Financial Statements (as defined in the ASA) and claims of breach by Seller of its regulatory representations. Purchasers further waive and rescind the claimed failures of conditions to Purchaser's obligation to close identified in the May 25 Letter.

4. Mutual Waiver of California Civil Code Section 1542. Seller Releasees and Purchaser Releasees each expressly waives any rights conferred upon them by Section 1542 of the California Civil Code, and expressly consent that this Release shall be given full force and effect according to all of its terms, including those terms relating to unknown and unsuspected claims, if any. Section 1542 provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

5. No Modification of ASA. Notwithstanding the terms herein, the Release is not intended to, and shall not, amend, modify, void, limit, or negate any representations or warranties made by any party in the ASA as amended by the Fourth Amendment and previous amendments.

6. No Admissions. The Parties do not admit that they, or any of them, have breached the ASA or violated any statute, law, rule, order, regulation, or other contract or legal duty, or incurred any liability on account thereof.

7. Governing Law. This Release shall be governed by and construed in accordance with the laws of the State of California.

8. Entire Agreement. This Release, together with the ASA, as amended including the Fourth Amendment, and all documents delivered in connection with the ASA, constitutes the entire agreement between the Parties with respect to the claims being released herein and supersedes any and all other agreements, understandings, negotiations, or discussions, whether oral or in writing, express or implied, between or among the Parties relating to the claims being released herein. The Parties and each of them acknowledge that no representations, inducements, promises, agreements or warranties have been made to them or by them, or by anyone acting on their behalf, which are not embodied in this Release or the ASA, as amended including the Fourth Amendment, and all documents delivered in connection with the ASA, that they have not executed this Release in reliance upon any such representations, inducement, promise, agreement or warranty, and that no representation, inducement, promise, agreement or warranty not contained in this Release or the ASA, as amended including the Fourth Amendment, and all documents delivered in connection with the ASA, including but not limited to any purported supplements, modifications, waivers or terminations of this Release, shall be valid or binding unless executed in writing by each of the Parties to this Release.

9. Agreement to Be Construed Fairly. This Release is to be construed fairly and not in favor of or against any party, regardless of which party drafted or participated in the drafting of its terms. Any rule of construction that a document is to be construed against the drafting party shall not be applicable to this Release.

10. No Assignment. Each of the Parties to this Release represents and warrants that there has been no assignment or other transfer of any interest in the claims which it or they have or may have that are being released herein.

11. Authority to Enter into Agreement. Each of the Parties represents and warrants that any person executing this Release on its behalf has the full right and authority to enter into this Release on behalf of said party, and has the full right and authority to execute this Release

and to fully bind that party to the terms and obligations of this Release. Each of the persons signing this Release on behalf of the Parties hereto makes the same warranties referred to herein.

12. Successors and Assigns. The terms of this Release shall be binding upon the Parties and their agents, officer, directors, employees, successors, assigns and insurers.

13. Consultation with Counsel. Each of the Parties to the Release represents and warrants that this Release has been voluntarily and knowingly executed by the Parties after having had the opportunity to consult with legal counsel. The Parties declare that they know and understand the contents of this Release, and that they have executed it voluntarily.

14. Headings. The various headings used in this Release are inserted for convenience only and shall not affect the meaning or interpretation of the Release or any provision of it.

15. Severability. If any word, clause, phrase, sentence, or paragraph of this Release is declared void or unenforceable, such portion shall be considered independent of, and severable from, the remainder, the validity of which shall remain unaffected.

16. Counterparts. This Release may be executed by one or more of the Parties hereto on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

IN WITNESS WHEREOF, this Release has been duly executed by the parties set forth below as of the date first written above.

PURCHASERS:

VICTOR VALLEY HOSPITAL ACQUISITION, INC.,
a California corporation

By: _____

Name: _____

Title: Chairman and CEO

VICTOR VALLEY HOSPITAL REAL ESTATE, LLC,
a California limited liability corporation

By: _____

Name: _____

Title: Manager

SELLER:

VICTOR VALLEY COMMUNITY HOSPITAL,
a California corporation

By: _____

Name: _____

Its: _____

UNSECURED CREDITORS COMMITTEE

By: _____

Name: _____

Its: _____

EXHIBIT 1.5.10

INTERIM MANAGEMENT AGREEMENT

AND LEASE

INTERIM MANAGEMENT AND LEASE AGREEMENT

This Interim Management & Lease Agreement (this "Agreement") is made and entered into this [] day of [] 2012 by and between Victor Valley Community Hospital, a California nonprofit public benefit corporation ("Licensee"), and Victor Valley Hospital Acquisition, Inc., a California corporation or its permitted assignee ("Manager").

WHEREAS, Licensee is the licensee of that certain general acute care hospital commonly known as Victor Valley Community Hospital and located at 15428 11th Street, Victorville, California (the "Facility").

WHEREAS, Licensee, as Seller, and Victor Valley Hospital Real Estate, LLC, a California limited liability corporation and Manager (collectively, "Purchasers"), entered into an Asset Sale Agreement dated October 29, 2010, as amended, including pursuant to that certain proposed Fourth Amendment to the Asset Sale Agreement (the "Asset Sale Agreement"), whereby Purchasers agreed to purchase substantially all of the real estate, tangible and intangible property and other assets used by Licensee in connection with the operation of the Facility (collectively the "Assets"), all as more particularly described in the Asset Sale Agreement. Any capitalized terms used, but not defined, herein shall have the meaning, if any, given to such terms in the Asset Sale Agreement.

WHEREAS, the Asset Sale Agreement is scheduled to close soon pursuant to the provisions of the Asset Sale Agreement (the "Closing"), at which time the Assets will be transferred to the Purchasers.

WHEREAS, until the effective date of the license ("New License") to be obtained by Manager from the California Department of Public Health ("DPH") to operate the Facility as a general acute care hospital in Manager's own right ("Licensure Date"), Manager desires to assume the operation and management of the Facility on behalf of Licensee, and Licensee desires to avail itself of said management services, all upon the terms and conditions hereinafter set forth. Thereafter, until receipt by Manager of a tie-in notice and the authority to bill the Centers for Medicare and Medicaid Services and the Medicare program in its own name and right for goods and services to Medicare beneficiaries at the Facility (together with the New License, referred to collectively as the "Manager Approvals"), Licensee and Manager desire to continue under this Agreement for the sole purpose of continued cooperation and management of billing and collection of receivables from Governmental Payment Programs (as defined at Section 4.2) and handling of Governmental Payments (as defined at Section 4.2). Therefore, at the Effective Time of the Asset Sale Agreement, and until the Licensure Date, Licensee shall maintain a possessory interest in the Facility and the Assets will be leased back to Licensee pursuant to this Agreement; nevertheless, Manager desires to and shall assume the management of the Facility as provided herein.

WHEREAS, the parties acknowledge and agree that Licensee is and shall remain the responsible Licensee of the Facility, fully liable and legally accountable at all times to all residents and governmental organizations for all patient care funds, and all other aspects of the operation and maintenance of the Facility, with ultimate authority and responsibility for the operation of the Facility at all times until the Licensure Date.

NOW, THEREFORE, in consideration of the covenants and conditions contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. **Term.** The term of this Agreement shall commence concurrent with the Effective Time (as such term is defined in the Asset Sale Agreement, the "**Effective Time**"), and shall continue until terminated in accordance with the provisions of Section 7 below (the "**Management Period**"). In the event that Manager does not obtain the New License as contemplated by this Agreement, and has exhausted all appeal rights and the denial of such a New License is upheld, or if Manager otherwise has no reasonable likelihood of obtaining such a New License, Licensee may require, and hereby agrees to permit, Manager to conduct a search and select another manager acceptable to Licensee and the governmental authority to assume the obligations under this Agreement, operate the Facility and obtain a New License. Notwithstanding the above, Licensee may grant any additional extensions to Manager, at Licensee's sole discretion.

2. **Grant.** During the Management Period, until the Licensure Date, Licensee hereby appoints Manager as the sole and exclusive manager for and on behalf of Licensee and hereby grants to Manager the exclusive right to manage the Facility under Licensee's Licenses (as defined in the Asset Sale Agreement) as a general acute care hospital, including without limitation, the right to undertake those certain management and financial responsibilities described in Sections 3 and 4 below. Manager hereby accepts such appointment for all purposes with respect to Licensee's rights, duties and responsibilities under the Licenses for the Facility, to the extent permitted by law, and agrees to provide management and administrative services to Licensee. The parties acknowledge and agree that, to the extent required by applicable licensure, certification and accreditation requirements, notwithstanding Manager's day-to-day management responsibility, Licensee is and will remain the responsible Licensee of the Facility, shall retain ultimate authority for and control over all operations of the Facility at all times during the Management Period, and, as such, is fully liable and legally accountable.

Upon the Licensure Date, the management services and responsibilities relating to the operation of the Facility under Licensee's License shall terminate, at which point Manager will be fully responsible for operating the Facility under its own New License, at its own expense. However, this Agreement will remain in effect for the remainder of the term of this Agreement for the limited purposes of continued cooperation and management of billing, collection and handling of Accounts (as defined at Section 4.2(a)) from the Facility, including without limitation Governmental Payments, and after the Licensure Date the other provisions of this Agreement shall apply only for, and to the extent applicable to, such limited purposes.

3. **Management Responsibility.**

3.1 During the Management Period, but subject to Section 2 above, Manager shall have full management responsibility for the operation of the Facility and agrees to assume and discharge all responsibilities, duties and obligations in connection with properly operating and maintaining the Facility in full compliance with all regulations and standards required of a general acute care hospital facility so licensed. In furtherance of the above, Manager's services shall include, but not be limited to, the following duties:

(a) Supervising and hiring, orienting, training, promoting, directing, assigning, disciplining and discharging all employees and staff of the Facility, including, without limitation, the meeting of all professional staff requirements and including, without limitation, all required and appropriate credentialing, and verifying the qualifications of employees, with all Facility employees being employees of Manager. It is further understood and agreed that the legal relationship between Manager and its employees, independent contractors, and other affiliated personnel shall not cause any of them to become or be treated as employees of Licensee after the Effective Time;

(b) Establishing staffing schedules, wage structure, and personnel policies for all employees; providing administration, training and oversight of same to ensure satisfactory performance of employees and staff, and, as necessary, directing the establishment, maintenance, distribution, implementation and updating of policy and procedure manuals needed for the operation of the Facility so that the Facility is in material compliance with all applicable local, state, and federal laws, regulations and requirements;

(c) Maintaining, including payment in a timely manner of applicable license fees and Quality Assurance Fees, on behalf of Licensee, all licenses, permits, consents, approvals and certifications required for the continued and ongoing operation of the Facility as an acute care hospital facility, provided that, until the Licensure Date, Licensee shall remain solely responsible for completing any Plan of Correction, prosecuting any protest or appeal of regulatory penalties or sanctions, and the payment of any fine or penalty, which is attributable to events occurring prior to the Effective Time;

(d) Supervising and directing the negotiation, management and performance of all payor contracts and programs and other contracts affecting operation of the Facility; and Manager shall have the right to terminate or renegotiate any such contracts; provided it does so consistent with their terms and Manager's other obligations herein concerning the proper operation of the Facility;

(e) Subject to the terms of this Agreement, maintaining and repairing, as needed, on a continuous and on-going basis all physical aspects of the Facility so as to ensure material compliance with (i) all obligations related to the physical condition of the Facility pursuant to local, state and federal law, and (ii) all obligations of Manager pursuant to (x) this Agreement and (y) any deeds of trust, security agreements, and similar instruments to which the Facility is subject;

(f) Supervising and directing employees and contractors of Manager with respect to the billing of patients and where applicable, third party payors, including Medicare and Medi-Cal, for services rendered at the Facility, and managing Licensee's accounts receivable to effectuate the collection thereof, utilizing the Licensee's provider numbers and presenting claims under the Licensee's provider agreements for the Facility;

(g) Processing and paying all accounts payable in a timely manner to maintain good relationships with vendors and suppliers and avoid late charges or other fines or penalties;

(h) Processing of payroll in a timely and accurate manner, including providing for the payment with the Facility's funds of all payroll, withholding, and other payroll-related taxes and benefits;

(i) Paying all rents, insurance, taxes, lease obligations and obligations under this Agreement, as applicable, operating costs, and related expenses, before delinquency or penalty;

(j) Engaging vendors and suppliers; purchasing all necessary food, beverage, personal care, cleaning, and other supplies, and equipment for the operation and maintenance of the Facility so as to minimize costs and expenses while maintaining quality care;

(k) Providing all necessary bookkeeping and accounting for the operation of the Facility;

(l) Preparing and/or amending on behalf of Licensee all capital and operating budgets for the Facility;

(m) Periodically reporting to the Licensee (or its designee) either in person or telephonically, concerning the financial and operational status of the Facility; including, without limitation, attending meetings of the Licensee as requested on advance notice, and issuing regular financial and operational reports;

(n) Fulfilling all of its obligations under this Agreement or any subsequent lease pertaining to the Facility;

(o) Handling and administration of all patient trust funds and accounts;

(p) Opening and processing or forwarding all mail;

(q) Manager shall have the right to change the name of the Facility during the term, if and when it chooses to do so, and shall indemnify, protect and hold the Licensee Indemnified Parties (as hereafter defined) harmless from and against any and all Damages (as hereafter defined), whether civil or criminal, direct or consequential and no matter how arising, in any way related to, connected with or arising or resulting from any trademark violations or infringements arising therefrom; and

(r) Such other duties and activities as are reasonably necessary for Manager to fulfill its general responsibilities and other provisions of this Agreement. The absence of a specific description of such other duties and activities in the foregoing provisions of this Section 3.1 shall not imply that such duties and activities are not among Manager's duties pursuant to this Agreement.

3.2 Manager shall supervise the provision of patient care at the Facility in compliance with all applicable federal, state and local laws and ordinances, rules, regulations and orders of any governmental or regulatory body having jurisdiction over the Facility, including, without limitation, the Medicare and Medi-Cal programs, and the Healthcare Facilities Accreditation Program, all as may be required to maintain and preserve all necessary licenses, certifications, permits, consents and approvals to operate the Facility as presently operated prior to the Effective Time. Manager shall use all commercially reasonable efforts to manage the Facility in a manner that (i) results in the delivery of quality medical care, and (ii) eliminates grounds for complaints, investigations, citations or adverse actions against the Facility or Licensee's Licenses (or against Licensee, by virtue of Licensee holding such Licenses) by any

governmental authority or third party payor or any patient or patient's representative relating to patient care or the operation and maintenance of the Facility.

3.3 Licensee shall take no action to obstruct, disrupt, interfere with, or otherwise impair Manager in the performance of Manager's duties pursuant to this Section 3, provided that Licensee shall retain ultimate authority over all operations of the Facility to the extent required by applicable licensure, certification and accreditation requirements.

4. Financial Responsibilities and Arrangements.

4.1 During the Management Period, Manager shall, for the account of Licensee and otherwise in accordance with this Section 4, undertake, manage, and administer the timely billing of patients and payors and the payment of all Facility expenses and accounts payable, arising after the Effective Date. All revenues generated in the operation of the Facility that accrue during the Management Period shall be deposited by and are the property of Manager. Licensee hereby appoints Manager during the Management Period to be its true and lawful attorney-in-fact for the following purposes:

(a) To bill patient's in Licensee's name, on Licensee's behalf, and under Licensee's provider number(s), specifically including, without limitation, services provided to Medicare and Medi-Cal patients during the Management Period, and to collect the revenue therefrom;

(b) To collect accounts receivable resulting from such billing in Licensee's name and on Licensee's behalf;

(c) To receive payments from insurance companies, prepayments from health care plans, and payments from all other third party payors; and

(d) To take possession of and endorse in the name of Licensee any notices, checks, money orders, insurance payments, and other instruments received in payment of the accounts receivable resulting from such billing.

4.2 Special Collection and Banking Provisions.

(a) To the extent legally permissible, and as qualified below for Governmental Payments, Licensee also hereby affirms and confirms the assignment to Manager as of the Effective Time of all revenues, monies, accounts, payments and other proceeds attributable to (i) the operation of the Facility from and after the Effective Time, and (ii) prior thereto as and to the extent constituting Assets transferred pursuant to the Asset Sale Agreement, and the products and proceeds of all of the foregoing items (i) and (ii) (collectively "Accounts"), together with all books, records, software and other items necessary to bill and collect same, with the authority and power to bill and collect same.

(b) All payments for Facility services during the term of this Agreement, including without limitation payments received from Medicare, Medi-Cal and other programs established by federal or state law ("Governmental Payment Programs") which require that payments for healthcare services be made to the providers of such services ("Governmental Payments") shall be deposited into the Special Account (as addressed below).

(c) The Licensee shall, during the term of this Agreement, maintain its existing collections/operations bank account, with account number: _____ ("Special Account"), at _____¹ (the "Bank"), into which the Manager and Licensee shall cause all Governmental Payments, and all other payments resulting from Accounts, to be deposited. Licensee agrees to enter into and maintain a depository or control agreement with the Bank ("Control Agreement"), in form reasonably acceptable to Licensee, Manager and Manager's lender, consistent with applicable law, pursuant to which the Bank is instructed that all amounts, including without limitation, all Governmental Payments, received into the Special Account shall be automatically transferred to the Manager's Account or such other account as specified by Manager or its lender ("Transfer Receipt Account") at the end of each business day. However, Licensee shall have the right as contemplated in the Asset Sale Agreement, to remove all of its cash in the Special Account existing prior to the Effective Time and not constituting Assets to be transferred pursuant to the Asset Sale Agreement. Licensee covenants that, notwithstanding its right to do so under the Control Agreement with the Bank, Licensee will not, during the term of this Agreement, take any actions to change the original payment instructions in connection with the Special Account or interfere with the transfer of funds from the Special Account to the Transfer Receipt Account, nor will Licensee or its agents remove, withdraw or authorize the removal or withdrawal of any funds from the Special Account for any purpose except to accomplish the transfer of funds addressed above, nor will the Licensee or its agents cause or agree to the termination or amendment of the Control Agreement addressed above.

(d) Licensee agrees to fully cooperate with Manager in implementing any other bank accounts and processes for handling the billing and collection of Accounts, consistent with applicable legal requirements, as requested by Manager, including without limitation in connection with Manager Financing (as defined below) requirements.

4.3. Cooperation with Manager Financing.

Licensee agrees to cooperate with Manager in effecting any financing that Manager desires to obtain in connection with the operation of the Facility or in connection with closing the Asset Sale Agreement ("Manager Financing"), including without limitation giving Manager and/or its lender control over the Special Account as addressed above, on and after the Effective Time. Licensee also agrees to cooperate with Manager in using the Special Account and any Accounts which become the property of Manager under this Agreement or the Asset Sale Agreement ("Manager AR") as collateral for any Manager Financing. Without limiting the preceding, Licensee agrees as follows:

(a) Licensee authorizes Manager to file UCC-1 Financing Statements ("Financing Statements") in order to perfect or reflect Manager's interest in the Manager AR;

(b) Licensee authorizes any lender of Manager, under any Manager Financing, as designated by Manager, to file any Financing Statements required by such lender to perfect its security interest in Manager AR and agrees to enter into any commercially reasonable collateral assignment of this Agreement or Manager AR or similar document requested by such lender.

¹ To be designated prior to signing.

Notwithstanding the foregoing, Licensee shall not be, nor shall Licensee be required to become, liable with respect to any such Manager Financing, and Manager agrees to indemnify, protect and hold the Licensee Indemnified Parties (as hereafter defined) harmless from and against any and all Damages (as hereafter defined), whether civil or criminal, direct or consequential and no matter how arising, in any way related to, connected with or arising or resulting from any such Manager Financing.

5. Continued Responsibility of Licensee.

5.1 It is understood that during the Management Period, until the Licensure Date, Licensee shall use all commercially reasonable efforts to keep in full force and effect all Licenses necessary or appropriate to the continued operation of the Facility, and Licensee shall use all commercially reasonable efforts to not allow any of the same to become invalid, restricted or otherwise adversely affected by the acts or omissions of Licensee or any of its officers, employees, agents or representatives. Licensee is and shall continuously remain, until the Licensure Date, the responsible licensee of the Facility and, as such, is fully liable and legally accountable at all times to all patients and governmental organizations for all patient care and all other aspects of the operation and maintenance of the Facility. Manager agrees to provide reasonably comfortable and accessible office space at the Facility for two representatives of Licensee, and to authorize their total access to the Facility and the books and records of operations at the Facility, to permit performance of Licensee's responsibilities during the Management Period.

5.2 Notwithstanding the legal and statutory liability and responsibility of Licensee for the continued operation of the Facility, it is recognized that under this Agreement, Manager shall be actually in charge of the day-to-day operation and maintenance of the Facility and of patient care. In the event that any violation or alleged violation of any statute or regulation applicable to the operation or maintenance of the Facility or to patient care occurs during the Management Period then, without regard to legal or statutory fault on the part of Manager or of Licensee, Manager shall immediately notify Licensee of such violation or alleged violation. Licensee retains the right to join Manager in contesting said violations upon providing Manager with notice of its intent to do so.

5.3 Manager shall obtain or maintain, or cause to be maintained, in force during the term of this Agreement all types and amounts of insurance in effect as of the Effective Time, and shall name Manager as insured and Licensee as an additional named insured. Manager shall promptly notify Licensee in writing in the event of cancellation, material modification or termination of such insurance. Upon receipt of Licensee's written request, Manager shall provide Licensee with certificate evidencing such insurance coverage. If Licensee continues to carry any such insurance, and adds Manager or any other person associated with Manager, such as a lender, as an additional insured under the policy or policies involved, during the Management Period, Manager agrees to pay the premium and all other cost of such insurance, including employment practices liability, workers' compensation, general liability and professional liability, automobile, property and casualty or fire. In addition, Manager shall be responsible for the cost of adding Manager as an additional insured under the Licensee's directors and officers insurance policy.

6. Indemnification.

6.1 Manager shall promptly and fully keep and hold Licensee and its officers, partners, employees, affiliates, representatives, successors and assigns (collectively the "Licensee Indemnified Parties") forever harmless from and shall indemnify and defend the Licensee Indemnified Parties from and against, without regard to materiality, any and all obligations, judgments, fines, civil money penalties, sanctions, liabilities, penalties, claims, losses, costs, demands, damages, expenses, liens, and encumbrances, including reasonable attorneys' fees (collectively, "Damages"), whether civil or criminal, direct or consequential and no matter how arising, in any way related to, connected with or arising or resulting from Manager's actions or inactions with respect to Manager's performance (or non-performance of duties) under this Agreement or its management of the Facility or otherwise arising out of the operation of the Facility after the Effective Time, including, without limitation, any and all claims for wages, salaries, benefits, taxes, and all other employee and independent contractor withholdings and charges. Notwithstanding the foregoing, it is understood that except as otherwise specifically provided for in the Asset Sale Agreement, Manager is not assuming any claim, liability, expense, debt or other obligation of Licensee that relates to the operation of the Facility prior to the Effective Time.

7. Termination of Management Agreement.

7.1 Unless earlier terminated as provided herein, this Agreement shall terminate as of the receipt of the last of the Manager Approvals to be obtained, or on the date of commencement of service by another manager selected under Section 1 above, providing services under a new written agreement between Licensee and such other manager.

8. **Lease of Facility.** From the Effective Time until the Licensure Date, Manager shall sublease the Facility to Licensee at no cost and without obligations to Manager's lessor and Licensee shall have all rights of possession over the Facility.

9. **Relationship of Parties.** In the performance of its duties and obligations under this Agreement, it is understood and agreed that Manager shall, at all times, be acting and performing as an independent contractor. Manager and Licensee are not partners or joint venturers with each other and nothing herein shall be construed so as to make them partners or joint venturers or impose upon either of them any liability as partners or joint venturers.

10. **Entire Agreement.** This Agreement, the Asset Sale Agreement, and any other agreements entered into concurrently herewith, contain and constitute the entire agreement between the parties concerning its subject matter, and supersede and cancel any prior agreements, representations, warranties or communications, whether oral or written, between the parties relating to the transactions contemplated by this Agreement. Neither this Agreement nor any provision hereof may be changed, waived, discharged or terminated orally, but only by an agreement signed by the parties hereto.

11. **Waivers.** The failure of a party hereto at any time or times to require performance of any provision hereof shall in no manner affect its right at a later time to enforce the same. No waiver by a party of any condition or of any breach of any term contained in this Agreement shall be effective unless in writing, and no waiver in any one or more instances shall

be deemed to be a further or continuing waiver of any such condition or breach in other instance or a waiver of any other condition or breach of any other term.

12. **Attorney Fees.** In the event of any litigation or arbitration between the parties hereto arising out of this Agreement, the prevailing party therein shall be allowed to recover from the other party all court costs and reasonable attorneys' fees which shall be fixed by the court or arbitrator.

13. **Governing Law.** This Agreement is to be governed by and construed in accordance with the internal laws of the State of California.

14. **Notices.** Any notice, request, instruction or other document to be given hereunder by a party hereto shall be in writing and shall be deemed to have been given, (i) when received if given in person, (ii) on the date of acknowledgment of receipt if sent by overnight courier, or (iii) three (3) days after being deposited in the U.S. mail, certified or registered mail, postage prepaid:

If to Licensee: Victor Valley Community Hospital
c/o Burke, Williams & Sorensen, LLP
444 So. Flower St., Suite 2400
Los Angeles, California 90071
Attn: Charles E. Slyngstad, Esq.

If to Manager: Victor Valley Hospital Acquisition, Inc.
6800 Indiana Avenue, Suite 130
Riverside, California 92506
Attention: William E. Thomas, Esq.
Facsimile No.: (951) 782-8850

or to such other address as a party hereto may designate for itself by notice given as herein provided.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first written above.

LICENSEE:	MANAGER:
Victor Valley Community Hospital, a California nonprofit public benefit corporation	Victor Valley Hospital Acquisition, Inc.
By: _____	By: _____
Name: _____	Name: _____
Its: _____	Its: _____

INTERIM LEASEBACK AGREEMENT

THIS INTERIM LEASEBACK AGREEMENT (the "**Leaseback Agreement**") is made and entered into as of [], 2012, by and between Victor Valley Community Hospital, a California nonprofit public benefit corporation ("**Tenant**"), and Victor Valley Hospital Acquisition, Inc., a California corporation or its permitted assignee ("**Landlord**").

RECITALS

- A. Tenant and Landlord, along with Victor Valley Hospital Real Estate, LLC, a California limited liability corporation ("**VVHRE**"), have entered into that certain Asset Sale Agreement dated October 29, 2010, as amended, including pursuant to that certain proposed Fourth Amendment to the Asset Sale Agreement (the "**ASA**") covering the assets of Victor Valley Community Hospital, located at 15428 11th Street, Victorville, California (the "**Hospital**").
- B. VVHRE is receiving all rights to the Owned Real Property (as defined in the ASA) and is leasing all of the Owned Real Property to Landlord, at the closing of the ASA;
- C. Landlord is receiving all other assets used in the operation of the Hospital (as defined in the ASA) including directly leasing all of the Leased Real Property (as defined in the ASA) (with the Owned Real Property and Leased Real Property referred to herein collectively as the "**Real Property**").
- D. Tenant and Landlord are entering into this Leaseback Agreement pursuant to and in consideration of an Interim Management and Lease Agreement ("**IMA**") which they are concurrently entering into.
- E. Until the Licensure Date (as defined in the IMA), Landlord desires for Tenant to remain in legal possession of the Hospital so that Tenant's Hospital licenses will remain in effect.
- F. Landlord desires to lease and, with respect to Real Property sublease, all of the tangible assets used in the operation of the Hospital to Tenant and Tenant desires to so lease and sublease such Hospital assets from Landlord, on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the covenants and conditions contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. DEFINITIONS. Any capitalized term appearing herein which is not defined shall have the same definition as ascribed under the ASA or IMA, as applicable. All references herein to the lease of the Leased Premises to Tenant shall be deemed to constitute the sublease of all Real Property and the lease of all other property included within the Leased Premises.

2. DESCRIPTION OF THE PREMISES. Landlord hereby leases to Tenant and Tenant leases from Landlord all of the Real Property and other fixtures, furnishings, equipment and tangible personal property used in the operation of the Hospital (collectively, the "Leased Premises").

3. TERM; TERMINATION.

3.1 Term. The term of this Leaseback Agreement shall commence concurrent with the IMA Effective Time, and shall continue until terminated in accordance with the terms of Section 3.2 hereof.

3.2 Termination of IMA. This Leaseback Agreement shall be deemed terminated concurrent with Licensure Date (as defined in the IMA).

4. PAYMENTS BY LANDLORD.

4.1 Utilities. Landlord shall pay all water, gas, heat, light, power, telephone service, and all other utilities and services supplied to the Leased Premises during the term hereof.

4.2 Taxes. Landlord shall pay all real and personal property taxes, assessments and levies of any kind or nature whatsoever taxed, assessed, levied or imposed upon or against the Leased Premises during the term hereof.

4.3 Insurance. Landlord shall pay all insurance premiums for insurance covering the Leased Premises during the term hereof. Landlord covenants and agrees that all of the property constituting the Leased Premises is covered as of the date hereof and will be covered at all times by general liability, fire, theft and physical damage insurance. All such insurance shall name Landlord and Tenant as insureds as their respective interests may appear.

4.4 Repairs and Maintenance; Alterations. Landlord shall pay all costs of repairing (including replacement of) and maintaining the Leased Premises and every part thereof in good and sanitary order, condition and repair during the term hereof, reasonable wear and tear excepted, including, without limitation, all costs of all repairs, replacements and maintenance required by any applicable governmental law, statute, ordinance, rule or regulation. Tenant shall not make any alterations or changes to the Leased Premises without prior written approval of Landlord which may be given or withheld in Landlord's sole discretion.

5. USE. The Leased Premises shall be used for the operation of the Hospital, subject to the terms of the ASA and the IMA.

6. MISCELLANEOUS.

6.1 Further Assurances. Each of the parties hereto agrees to execute and deliver any and all further agreements, documents or instruments necessary to effectuate this Leaseback Agreement and the transactions referred to herein or contemplated hereby or reasonably requested by the other party to perfect or evidence their rights hereunder.

6.2 Notices and Demands. All notices and demands, requests, consents, approvals, and other similar communications under this Leaseback Agreement shall be in writing and shall be sent by personal delivery or by either (a) United States certified or registered mail, return receipt requested, postage prepaid, or (b) Federal Express or similar generally recognized overnight carrier regularly providing proof of delivery, addressed as follows:

If to Tenant:

Victor Valley Community Hospital
c/o Burke, Williams & Sorensen, LLP
444 So. Flower St., Suite 2400
Los Angeles, California 90071
Attn: Charles E. Slyngstad, Esq.

If to Landlord:

Victor Valley Hospital Acquisition, Inc.
6800 Indiana Avenue, Suite 130
Riverside, California 92506
Attention: William E. Thomas, Esq.
Facsimile No.: (951) 782-8850

Any notice so given by mail shall be deemed to have been given as of the date of delivery (whether accepted or refused) established by U.S. Post Office return receipt or the overnight carrier's proof of delivery, as the case may be, whether accepted or refused. Any such notice not so given shall be deemed given upon receipt of the same by the party to whom the same is to be given. Any party hereto may designate a different address for itself by notice to the other party in accordance with this Section 7.2.

6.3 Payment of Expenses. Each party hereto shall bear its own legal, accounting and other expenses incurred by Landlord and Tenant in connection with the preparation and negotiation of this Leaseback Agreement and the consummation of the transaction contemplated hereby, whether or not the transaction is consummated.

6.4 Entire Agreement; Amendment; Waiver. This Leaseback Agreement, together with the other agreements referred to herein, constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions and preliminary agreements. This Leaseback Agreement may not be modified or amended except in writing signed by the parties hereto. No waiver of any term, provision or condition of this Leaseback Agreement in any one or more instances, shall be deemed to be or be

construed as a further or continuing waiver of any such term, provision or condition of this Leaseback Agreement. No failure to act shall be construed as a waiver of any term, provision, condition or rights granted hereunder.

6.5 Assignment. Neither this Leaseback Agreement nor the rights, duties or obligations arising hereunder shall be assignable or delegable by Tenant or Landlord without the prior written consent of the other party, which may be granted, denied or conditioned in such party's absolute discretion except that Landlord may assign this Leaseback Agreement in connection with any permitted assignment under the IMA. Subject to the foregoing, this Leaseback Agreement shall be binding upon, and inure to the benefit of, the respective successors and assigns of the parties hereto.

6.6 Joint Venture; Third Party Beneficiaries. Nothing contained herein shall be construed as forming a joint venture or partnership between the parties hereto with respect to the subject matter hereof. The parties hereto do not intend that any third party shall have any rights under this Leaseback Agreement.

6.7 Captions. The section headings contained herein are for convenience only and shall not be considered or referred to in resolving questions of interpretation.

6.8 Counterparts. This Leaseback Agreement may be executed and delivered via facsimile and in one or more counterparts and all such counterparts taken together shall constitute a single original agreement.

6.9 Governing Law. This Leaseback Agreement shall be governed in accordance with the laws of the State of California without regard to the conflict of rules of such State.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]
[SIGNATURE PAGE FOLLOWS]

[Signature Page to Interim Leaseback Agreement]

IN WITNESS WHEREOF, the undersigned have executed this Leaseback Agreement as
of the date first written above.

LANDLORD:

TENANT:

Victor Valley Hospital Acquisition, Inc.

Victor Valley Community Hospital

By: _____

By: _____

Name: _____

Name: _____

Its: _____

Its: _____

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is:
10100 Santa Monica Boulevard, 13th Floor, Los Angeles, CA 90067

A true and correct copy of the foregoing document entitled (*specify*): **NOTICE OF FILING EXECUTED FOURTH AMENDMENT TO ASSET SALE AGREEMENT** will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

1. **TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF)**: Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On **June 28, 2012**, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

Service information continued on attached page

2. **SERVED BY UNITED STATES MAIL**:

On **June 28, 2012**, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

Service information continued on attached page

3. **SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL** (state method for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on (date) **June 28, 2012**, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

VIA PERSONAL DELIVERY

Honorable Catherine Bauer
United States Bankruptcy Court
Central District of California
411 West Fourth Street, Suite 5165
BIN OUTSIDE 5TH FLOOR ELEVATORS
Santa Ana, CA 92701

Service information continued on attached page

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct.

June 28, 2012
Date

Nancy H. Brown
Printed Name

/s/ Nancy H. Brown
Signature

This form is mandatory. It has been approved for use by the United States Bankruptcy Court for the Central District of California.

1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF):

- Annadel A Almendras Annadel.Almendras@doj.ca.gov
- Allison R Axenrod allison@claimsrecoveryllc.com
- Martin R Barash mbarash@ktbslaw.com
- Kirk A Barber barberlawgroup@yahoo.com
- Manuel A Boigues bankruptcycourtnotices@unioncounsel.net
- Mark Bradshaw mbradshaw@shbllp.com
- Jennifer K Brooks jennifer.brooks@kattenlaw.com
- Joseph P Buchman jbuchman@bwslaw.com, atualla@bwslaw.com
- Frank Cadigan frank.cadigan@usdoj.gov
- Jeff Cohen JC@SouthpawAsset.com
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- David Scott centillion@centillioninvest.com

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- James R Selth jim@wsrlaw.net, jselth@yahoo.com;megan@wsrlaw.net;tanmay@wsrlaw.net
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- Andrew F Whatnall awhatnall@daca4.com

2. SERVED BY UNITED STATES MAIL

**Victor Valley Community Hospital
Chapter 11 Case No.: 8:12-bk-12896-CB
2002 Service List**

Debtor

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Interim Chief Executive Officer
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Victorville, CA 92395

Board of Directors

Kathy Davis
Chair, Governing Board of Directors
17100 B Bear Valley Rd.
Box 357
Victorville, CA 92395

Charlie Slyngstad
Burke Williams and Sorenson, LLP
444 S. Flower St., Ste. 2400
Los Angeles, CA 90071

United States Trustee

Frank Cadigan
Office of the United States Trustee
411 West Fourth Street, Suite 9041
Santa Ana, CA 92701

Attorneys for Creditors' Committee

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Los Angeles, CA 90067

Committee Member

Medtronic USA, Inc.
710 Medtronic Pkwy
Minneapolis, MN 55432-5603
Representative: Steve Carlson

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Committee Member

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California Department of Justice
Office of the Attorney General
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Los Angeles, CA 90013

Office of Statewide Health Planning and Development
Cal-Mortgage Loan Insurance Division
400 "R" Street, Suite 470
Sacramento, CA 95811

California Health Facilities Financing Authority
915 Capitol Mall, Suite 590
Sacramento, CA 95814

Secured Creditors

Gregg Buxton, Vice President
Desert Community Bank
a Division of East West Bank
14800 La Paz Drive
Victorville, CA 92395

Corwin Medical Group
Manmohan Nayyar, MD
Raman Poola, MD
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BNY Mellon Trust Company NA
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Attention: Aaron Masters

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725 South Figueroa Street, Suite 2800
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Interested Parties

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Stalking Horse Bidder
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J. Raymond Elliott
President and Chief Executive Officer
Boston Scientific
re: Guidant Corporation
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Natick, MA 01760-1537

Johnson & Johnson Health Care Systems Inc.
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Piscataway, NJ 08854

Radiometer America, Inc.
810 Sharon Drive
Westlake, OH 44145

Quadramed
Attention: Penny W. Collings
QuadraMed Corporation
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Reston VA 20190

Stephen M. O'Hara
President and CEO
Angelica Textile Services (R-Colton)
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Requests for Special Notice

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Attention: William E. Thomas, Esq.

Tin Kin Lee on behalf of Creditor Inland
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Tin Kin Lee Law Offices
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State Board Of Equalization
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Canon
Law Offices of Stephen P. Grayson APC
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Kenneth R Reynolds Inc
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Los Angeles, CA 90067-3005

Technology Resource Center
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Denton, TX 76209

Matthew Wolf on behalf of Creditor National Fire &
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Los Angeles, CA 90017

This form is mandatory. It has been approved for use by the United States Bankruptcy Court for the Central District of California.



FINANCIAL STATEMENTS

May 2012

Victor Valley Community Hospital
"Notes to the Financial Statements"
May 2012

VARIANCE ANALYSIS

The financial results for May 2012 show a Net Loss \$1,061,570 unfavorable to budget

Net Patient Service Revenue was unfavorable to budget by \$874,036 driven primarily by low census.

Total Operating Expenses were unfavorable to budget by \$207,782. Unfavorability was driven by Registry expenses (\$258k), Salaries and Wages (\$147k) and Medical Supplies (\$107k), offset somewhat by Bad Debt Expense (\$283k).

The variance break-down is as follows:

	<u>MTD May 2012</u>	<u>BUDGET May 2012</u>	<u>VARIANCE</u>
Net Income/(Loss) – fav/(unfav)	(\$706,258)	\$355,312	(\$1,061,570)
Net Patient Service Revenue Variance– fav/(unfav)	\$5,253,419	\$6,127,455	(\$874,036)
Other Revenue Variance – fav/(unfav)	\$309,852	\$293,000	\$16,852
Operating Expense Variance – fav/(unfav)	\$6,072,924	\$5,865,143	(\$207,782)

Census and Visits

Inpatient Services:

- The average daily census for May was 14 under budget at 45. YTD we are 6 under budget. We experienced our lowest occupancy rate of the year in May.
- Patient days for the month were unfavorable to budget by 425 with an actual of 1,402 versus a budget of 1,827. YTD we are 1,156 days under budget.
- The average length of stay (ALOS) for May was 3.4 days. Medicare Traditional increased from 5.2 to 6.2. Medicare Managed Care increased from 3.2 to 3.4. Medi-Cal Traditional decreased from 3.1 to 2.8. Medi-Cal Managed Care decreased from 3.1 in April to 2.7 in May.

Outpatient Services:

- The Emergency Department generated 2,749 visits for the month, which was unfavorable to budget by 96. YTD we are over budget by 1,504 visits. Admissions from ED represented 34.9% of total admissions.
- The hospital saw 854 outpatient visits for the month, which was unfavorable to budget by 343. YTD we are under budget by 588 visits.
- Outpatient surgeries increased from 226 in April to 245 in May. Last fiscal year we generated a monthly average of 251.

Operating Revenues

Total Other Revenue for May was \$309,852 which was \$16,852 favorable to budget. The favorability was mainly driven by unanticipated DSH Revenue received in the month, mitigated somewhat by an adjustment of previously accrued revenue (Labwest).

Operating Expenses

Non-Salary Operating Expenses for May were unfavorable to budget by \$141,252. Unfavorability was primarily driven by Registry (\$258k), Medical Supplies (\$107k), Repairs (\$93k) and mitigated by Bad Debt Expense (\$283k) and Rents & Leases (\$95k).

Balance Sheet

Accounts Receivable

As of May 31 the days' revenue in Accounts Receivable was at 58 compared to 57 days in April.

VICTOR VALLEY COMMUNITY HOSPITAL		
AR DAYS		
AS OF May 31, 2012		
	REVENUE	DAYS
JUNE	22,924,119	30
JULY	23,254,091	31
AUGUST	26,706,215	31
SEPTEMBER	20,318,309	30
OCTOBER	19,818,100	31
NOVEMBER	19,467,893	30
DECEMBER	20,963,293	31
JANUARY	19,997,958	31
FEBRUARY	20,245,584	29
MARCH	22,266,931	31
APRIL	20,874,949	30
MAY	20,829,913	31
A/R DAYS	58	

Accounts Payable

The number of days in Accounts Payable (AP) as of May 31 was 143 days, an increase from the prior month of 8 days.

VICTOR VALLEY COMMUNITY HOSPITAL		
AP DAYS		
AS OF May 31, 2012		
	<u>OPERATING</u>	<u>DAYS</u>
	<u>EXPENSES</u>	
JUNE	2,763,203	30
JULY	2,620,208	31
AUGUST	2,486,803	31
SEPTEMBER	3,278,946	30
OCTOBER	2,281,550	31
NOVEMBER	2,416,286	30
DECEMBER	2,375,160	31
JANUARY	2,113,258	31
FEBRUARY	2,290,480	29
MARCH	2,644,704	31
APRIL	2,795,848	30
MAY	2,379,825	31
Post-Petition Liabilities @ 5/31/2012	1,209,424	
Total A/P @ 5/31/2012	11,876,345	
A/P DAYS	143	



SELECTED FINANCIAL INDICATORS
Ended May 31, 2012

	FY 2012	FY 2011 (Audited)	FY 2010 (Audited)	FY 2009 (Audited)	FY 2008 (Audited)	
Total Patient Revenue	20,832,370	20,318,309	21,014,503	22,821,182	19,379,680	
Total Cash	2,750,759	5,033,287	822,838	1,012,235	1,056,812	
Net Patient Receivable	5,287,259	4,978,848	4,866,783	7,763,360	7,430,527	
	8,038,018	10,512,826	5,689,621	8,775,595	8,487,339	
Current Assets	12,868,563	21,093,783	12,215,651	15,248,860	14,068,846	
Current Liabilities	19,318,069	30,056,861	21,104,327	17,221,099	15,794,699	
Accounts Payable - Pre-Petition	10,666,920	10,090,173	9,676,543	10,119,555	9,388,522	
Accounts Payable - Post-Petition	1,209,424	7,741,784	532,629			
Bonds Payable	0	0	1,790,000	2,620,000	3,410,000	
Loan Payable	2,907,125	4,260,341	4,438,782	4,503,782	4,563,782	
Long Term Debt Medi-Cal	6,680,167	5,267,926	4,018,765	5,816,137	5,721,832	
DIP Financing	2,675,000	0	1,100,000			
Notes Payable	6,700,000	6,700,000	6,700,000	6,000,000	6,000,000	
Total Debt	43,669,887	41,742,780	38,312,802	36,651,160	35,758,737	
Fund Balance	(9,497,338)	(3,666,625)	(7,853,066)	(4,777,804)	(3,985,593)	
		VVCH	VVCH	VVCH	VVCH	INDUSTRY AVG
CURRENT RATIO	<u>12,868,563</u>	<u>21,093,783</u>	<u>12,215,651</u>	<u>15,248,860</u>	<u>14,068,846</u>	
	19,318,069 0.67	30,056,861 0.70	21,104,327 0.58	17,221,099 0.89	15,794,699 0.89	1.26
QUICK RATIO	<u>2,750,759</u>	<u>5,033,287</u>	<u>822,838</u>	<u>1,012,235</u>	<u>1,056,812</u>	
	19,318,069 0.14	30,056,861 0.17	21,104,327 0.04	17,221,099 0.06	15,794,699 0.07	0.96
DEBT TO EQUITY	<u>43,669,887</u>	<u>41,742,780</u>	<u>38,312,802</u>	<u>36,651,160</u>	<u>35,758,737</u>	
	(9,497,338) (4.60)	(3,666,625) (11.38)	(7,853,066) (4.88)	(4,777,804) (7.67)	(3,985,593) (8.97)	2.94
ACCOUNTS PAYABLE TO MONTH REVENUE	<u>11,876,345</u>	<u>17,831,957</u>	<u>10,209,172</u>	<u>10,119,555</u>	<u>9,388,522</u>	
	20,832,370 0.57	20,318,309 0.88	21,014,503 0.49	22,821,182 0.44	19,379,680 0.48	0.07

Victor Valley Community Hospital
 AR DAYS
 For the Month Ending May 31, 2012

										<u>AR Days</u>												
<u>Inpatient</u>										<u>MAY</u>	<u>APR</u>	<u>MAR</u>	<u>FEB</u>	<u>JAN</u>	<u>DEC</u>	<u>NOV</u>	<u>OCT</u>	<u>SEP</u>	<u>AUG</u>	<u>JUL</u>	<u>JUN</u>	
<u>Financial Class</u>	<u>0-30</u>	<u>31-60</u>	<u>61-90</u>	<u>91-120</u>	<u>121-150</u>	<u>151-180</u>	<u>181-360</u>	<u>361-999</u>	<u>TOTAL</u>													
SELF PAY	952,670	709,708	460,429	72,304	171,540	38,473	76,213	70,270	2,551,606	217	232	212	211	327	335	349	199	222	200	194	245	
MEDICARE	1,937,653	216,593	209,914	31,884	0	52,928	17,986	38,299	2,505,257	29	51	43	47	48	43	42	40	23	36	39	37	
MEDICARE MGD	1,105,249	1,110,865	605,716	318,860	132,571	45,152	78,803	43,804	3,441,020	74	79	91	90	102	118	99	116	93	88	84	83	
MEDI-CAL	1,715,134	766,103	177,175	58,638	42,724	6,356	95,461	8,839	2,870,430	55	41	49	61	67	51	55	56	45	77	79	47	
MIA	162,578	376,627	184,734	115,666	60,539	0	31,097	0	931,243	149	93	72	56	66	159	163	91	76	31	25	10	
M/CAL MNG CRE	3,658,348	3,154,230	1,055,886	235,794	194,272	191,050	66,757	22,622	8,578,960	74	70	64	54	45	42	43	42	37	41	31	33	
COMMERCIAL	503,477	561,160	185,600	227,221	213,959	151,107	307,113	52,644	2,202,282	68	77	73	66	63	64	61	74	49	58	51	42	
MANAGED CARE	1,340,777	328,608	483,915	124,305	22,277	75,341	290,091	35,294	2,700,607	69	62	61	55	53	54	50	48	39	40	36	48	
WORKER'S COMP	20,643	0	15,637	0	0	0	0	21,488	57,768	198	632	750	177	167	235	217	170	152	167	152	168	
TOTAL	11,396,530	7,223,894	3,379,006	1,184,672	837,882	560,406	963,520	293,261	25,839,172	66	68	65	63	64	63	62	65	50	57	54	52	
<u>Outpatient</u>										<u>AR Days</u>												
<u>Financial Class</u>	<u>0-30</u>	<u>31-60</u>	<u>61-90</u>	<u>91-120</u>	<u>121-150</u>	<u>151-180</u>	<u>181-360</u>	<u>361-999</u>	<u>TOTAL</u>	<u>MAY</u>	<u>APR</u>	<u>MAR</u>	<u>FEB</u>	<u>JAN</u>	<u>DEC</u>	<u>NOV</u>	<u>OCT</u>	<u>SEP</u>	<u>AUG</u>	<u>JUL</u>	<u>JUN</u>	
SELF PAY	910,707	521,405	434,446	219,632	30,520	9,283	3,630	-33,390	2,096,233	66	58	50	50	43	57	47	49	32	35	41	48	
MEDICARE	424,017	84,029	39,750	19,427	657	8,893	62,334	116,325	755,432	33	33	41	56	46	32	28	38	41	30	39	33	
MEDICARE MGD	768,953	395,429	272,264	91,433	103,024	65,076	325,381	215,939	2,237,499	93	80	94	98	93	94	87	92	87	96	95	92	
MEDI-CAL	473,521	120,902	26,156	16,626	24,707	10,327	19,085	17,288	708,611	31	29	35	25	33	23	33	43	28	40	52	29	
MIA	91,283	69,957	17,587	16,872	8,820	4,334	7,304	0	216,158	126	89	43	31	42	46	15	66	6	4	0	0	
M/CAL MNG CRE	2,502,028	1,142,140	347,798	124,008	58,344	53,955	308,261	147,607	4,684,141	42	42	43	47	46	36	40	40	37	44	43	33	
COMMERCIAL	728,576	289,606	169,888	95,430	214,491	158,270	278,014	55,216	1,989,491	63	62	65	64	53	53	48	47	40	47	45	40	
MANAGED CARE	717,234	373,099	190,914	139,665	79,090	103,654	276,765	60,288	1,940,709	58	60	64	60	58	60	55	59	51	58	64	54	
WORKER'S COMP	14,686	40,039	2,519	5,402	35,257	0	16,768	3,861	118,533	83	104	79	79	87	76	77	99	52	74	60	67	
TOTAL	6,631,006	3,036,606	1,501,324	728,494	554,909	413,793	1,297,541	583,134	14,746,807	52	50	52	54	51	47	47	49	42	47	50	43	
<u>FINANCIAL CLASS</u>	<u>0-30</u>	<u>31-60</u>	<u>61-90</u>	<u>91-120</u>	<u>121-150</u>	<u>151-180</u>	<u>181-360</u>	<u>361-999</u>	<u>TOTAL</u>	<u>MAY</u>	<u>APR</u>	<u>MAR</u>	<u>FEB</u>	<u>JAN</u>	<u>DEC</u>	<u>NOV</u>	<u>OCT</u>	<u>SEP</u>	<u>AUG</u>	<u>JUL</u>	<u>JUN</u>	
COMBINED A/R	18,027,536	10,260,500	4,880,330	1,913,166	1,392,792	974,199	2,261,061	876,395	40,585,979	58	57	56	54	51	48	46	57	46	53	52	48	

VICTOR VALLEY COMMUNITY HOSPITAL
 COLLECTIONS
 For the Month Ending May 31, 2012

	FY 2011	Avg Mth Collection	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	YTD 2012
SUMMARY															
Medical	8,609,843	717,487	569,376	526,863	682,031	315,114	705,104	593,102	569,677	499,690					4,460,957
Medicare	11,451,231	954,269	800,483	689,939	467,166	678,821	806,054	1,102,273	809,120	1,345,038					6,698,894
IEHP	9,563,246	796,937	793,215	682,050	1,005,737	762,772	655,235	874,691	871,350	1,061,584					6,706,634
Heritage	1,983,600	165,300	145,459	177,963	67,492	153,783	125,320	127,532	112,827	163,976					1,074,352
Choice	2,697,060	224,755	207,332	293,772	120,692	305,721	233,536	257,357	218,007	154,369					1,790,786
FCC	1,126,496	93,875	19,383	25,807	74,864	3,280	2,652	249,843	32,444	16,767					425,040
Hdcs-Mrcs	177,475	14,790	0	2,812	9,304	1,539	12,064	3,918	3,851	0					33,488
Insurances	18,899,227	1,574,936	1,533,928	1,426,970	1,254,778	1,284,822	1,242,968	1,013,383	1,504,902	1,214,932					10,476,683
Self Pay	271,545	22,629	15,191	22,433	14,470	16,552	33,833	46,182	26,817	18,133					193,611
Credit Card	385,124	32,094	21,346	58,627	23,182	26,138	20,945	27,877	23,278	27,497					228,890
IVAR	133,017	11,085	960	56,612	72,394	0	0	0	2,910	2,103					134,979
TOTAL	55,297,864	4,608,155	4,106,673	3,963,848	3,792,110	3,548,542	3,837,711	4,296,158	4,175,183	4,504,089	0	0	0	0	32,224,314
NET PATIENT REVENUE	84,988,603	7,082,384	5,535,208	4,629,917	5,521,677	4,913,138	4,527,263	6,474,953	6,950,531	5,253,419	0	0	0	0	43,806,106
Less: QA Fess	13,567,776		0	0	0	0	0	0	1,949,248	0	0	0	0	0	1,949,248
Less: Bad Debt Write Off	15,224,000	1,268,667	1,688,030	772,264	1,030,050	1,111,218	1,019,143	1,241,333	1,486,728	1,005,745	0	0	0	0	9,354,512
ADJUSTED NET PATIENT REVENUE	56,196,828	5,813,717	3,847,178	3,857,653	4,491,627	3,801,920	3,508,119	5,233,620	3,514,554	4,247,673	0	0	0	0	32,502,345
%OF COLLECTION OVER NET PT REV	98.4%	79.3%	106.75%	102.75%	84.43%	93.34%	109.40%	82.09%	118.80%	106.04%					99.14%

**VICTOR VALLEY COMMUNITY HOSPITAL
BALANCE SHEET - FY 2012**

	OCTOBER	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER
CURRENT ASSETS												
OPERATING FUNDS	4,844,002	3,788,689	3,258,970	3,185,885	2,999,738	2,840,112	2,875,542	2,254,822				
HEALTH BENEFITS ACCOUNT	0	0	0	0	0	0	0	0				
CAPITATION ACCOUNT	479,519	479,517	495,959	495,954	495,951	495,947	495,942	495,936				
MARKETABLE SECURITIES	0	0	0	0	0	0	0	0				
ACCOUNTS RECEIVABLE	36,426,631	35,146,533	36,551,476	37,735,009	38,373,481	39,245,682	39,815,585	39,659,995				
ALLOWANCE FOR BAD DEBTS	(6,625,888)	(6,139,226)	(6,310,895)	(5,614,630)	(5,786,823)	(6,021,911)	(6,813,341)	(6,846,699)				
ALLOWANCE FOR CONTRACTUALS	(25,089,050)	(24,453,958)	(24,917,954)	(26,636,079)	(27,514,932)	(27,916,703)	(27,450,341)	(27,526,037)				
NET ACCOUNTS RECEIVABLE	4,701,695	4,553,349	5,322,528	5,484,299	5,072,625	5,307,968	5,511,903	5,287,259	0	0	0	0
	13%	13%	15%	15%	13%	14%	14%	13%				
OTHER RECEIVABLE	1,118,537	1,350,665	1,447,543	1,194,640	1,194,646	1,310,131	1,087,164	1,362,404				
ALLOWANCE FOR BAD DEBTS - OTHER RECEIVABLE	(514,710)	(514,710)	(514,710)	(514,710)	(514,710)	(514,710)	(514,710)	(514,710)				
INVENTORIES	1,330,351	1,330,351	1,330,351	1,330,351	1,330,351	1,344,681	1,344,681	1,344,681				
PREPAID EXPENSES AND OTHER ASSETS HELD IN TRUST	2,620,326	2,592,953	2,578,450	2,632,436	2,632,436	3,117,191	3,407,831	2,634,490	2,638,170			
	0	0	0	0	0	0	0	0				
TOTAL CURRENT ASSETS	14,579,721	13,580,815	13,919,091	13,808,855	13,695,792	14,191,961	13,435,012	12,868,563	0	0	0	0
PROPERTY AND EQUIPMENT												
LAND	374,386	374,386	374,386	374,386	374,386	374,386	374,386	374,386				
LAND IMPROVEMENTS	1,223,256	1,223,256	1,223,256	1,223,256	1,223,256	1,223,256	1,223,256	1,223,256				
HOSPITAL BUILDINGS	24,897,347	24,897,347	24,919,097	24,919,097	24,919,097	24,932,335	24,932,335	24,935,810				
FIXED EQUIPMENT	2,860,692	2,860,692	2,860,692	2,860,692	2,869,179	2,869,179	2,893,470	2,893,470				
MAJOR MOVABLE EQUIPMENT	23,502,682	23,485,235	23,509,789	23,470,411	23,540,851	23,553,138	23,580,453	23,791,351				
MINOR EQUIPMENT	0	0	0	0	0	0	0	0				
CONSTRUCTION IN PROGRESS	1,423,994	1,427,610	1,452,363	1,455,747	1,455,747	1,468,358	1,469,690	1,459,003				
TOTAL PROPERTY & EQUIPMENT	54,282,357	54,268,526	54,339,583	54,303,589	54,395,754	54,420,653	54,473,590	54,677,275	0	0	0	0
ACCUMULATED DEPRECIATION	(37,245,127)	(37,441,719)	(37,629,187)	(37,781,336)	(37,978,250)	(38,176,254)	(38,371,963)	(38,568,568)				
NET PROPERTY & EQUIPMENT	17,037,230	16,826,806	16,700,396	16,522,253	16,417,505	16,244,399	16,101,628	16,108,708	0	0	0	0
INTANGIBLES & OTHERS												
INTANGIBLES & OTHERS												
ASSETS HELD IN TRUST - KPC	5,185,008	5,187,100	5,188,581	5,190,062	5,190,062	5,192,740	5,192,740	5,195,279				
TOTAL INTANGIBLES AND OTHERS	5,185,008	5,187,100	5,188,581	5,190,062	5,190,062	5,192,740	5,192,740	5,195,279	0	0	0	0
TOTAL ASSETS	36,801,959	35,594,721	35,808,068	35,521,171	35,303,359	35,630,099	34,729,379	34,172,549	0	0	0	0
CURRENT LIABILITIES												
CURRENT PORTION OF LEASES	13,783	13,783	13,783	13,783	13,783	12,635	13,783	13,783				
CURRENT PORTION CMS LIABILITY	3,442,508	3,092,508	3,092,508	2,742,508	2,042,508	1,692,508	1,342,508	1,342,508				
CURRENT PORTION MEDI-CAL LIABILITY (DUE TO THRD PTY PAYO)	330,867	330,929	330,929	330,929	330,929	330,929	330,929	330,929				
CURRENT PORTION OF DCB / OSHPD LOAN	800,986	804,435	807,787	811,265	815,088	818,484	822,008	825,433				
ACCURED INTEREST PAYABLE	40,870	43,787	46,703	49,620	52,537	55,453	58,370	61,287				
ACCOUNTS PAYABLE (SUBJ TO COMPROMISE)	10,090,173	10,090,173	10,090,173	10,090,173	10,666,920	10,666,920	10,666,920	10,666,920				
ACCOUNTS PAYABLE - POST PETITION	1,264,368	1,291,539	1,446,729	1,111,918	929,432	1,114,229	758,683	1,209,424				
ACCOUNTS PAYABLE, ACCRUAL	1,700,609	1,938,594	2,064,956	2,237,932	2,312,486	2,084,654	2,278,292	1,883,640				
ACCURED PAYROLL, VACATION	1,516,472	1,584,010	1,751,720	2,034,608	2,173,053	1,587,446	1,569,994	1,822,276				
PAYROLL TAXES PAYABLE	(1,079)	(1,079)	0	0	(1,016)	(1,016)	(1,016)	(1,016)				
EMPLOYEE HEALTH INSURANCE	0	(190)	0	0	0	0	0	0				
OTHER PAYROLL LIABILITIES	54,815	41,371	49,954	45,999	58,936	95,474	53,065	25,120				
DUE TO/FROM VVCH FOUNDATION	758,786	758,786	758,786	758,786	794,625	794,625	794,625	794,625				
OTHER CURRENT LIABILITIES	11,769	12,223	12,651	12,384	13,384	13,584	12,451	12,451				
SETTLEMENTS PAYABLE	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000				
IBNR	260,688	260,688	260,688	260,688	260,688	260,688	260,688	260,688				
TOTAL CURRENT LIABILITIES	20,355,615	20,331,557	20,797,367	20,570,595	20,533,354	19,596,614	19,031,300	19,318,069	0	0	0	0
LONG-TERM LIABILITIES												
BONDS PAYABLE	0	0	0	0	0	0	0	0				
NOTES PAYABLE - DCB / OSHPD	3,394,127	3,325,762	3,256,840	3,187,683	3,117,543	3,047,554	2,977,697	2,907,125				
DUE TO THIRD PARTY PAYORS	4,768,673	4,713,541	5,045,613	5,032,737	4,871,541	4,858,665	4,845,790	4,780,167				
DIP FINANCING	0	0	0	0	1,200,000	2,675,000	2,675,000	2,675,000				
CMS PAY-BACK LIABILITY	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000				
CAPITAL LEASE OBLIGATION	27,566	26,418	26,418	24,121	22,972	22,972	20,675	19,526				
NOTES PAYABLE - PHM	6,700,000	6,700,000	6,700,000	6,700,000	6,700,000	6,700,000	6,700,000	6,700,000				
DEPOSITS PAYABLE - KPC	680,660	680,660	680,660	680,660	680,660	680,660	680,660	680,659				
DEPOSITS PAYABLE - KPC Potential DIP Liability	4,319,340	4,319,340	4,319,340	4,319,340	4,319,340	4,319,340	4,319,340	4,319,341				
DEFERRED REVENUE	370,000	370,000	370,000	370,000	370,000	370,000	370,000	370,000				
TOTAL LONG-TERM LIABILITIES	22,160,366	22,035,721	22,298,671	23,214,541	24,182,057	25,574,192	24,489,161	24,351,818	0	0	0	0
FUND BALANCE												
FUND BALANCE - PRIOR YEAR	(4,657,903)	(4,657,903)	(4,657,903)	(4,657,903)	(4,657,903)	(4,657,903)	(4,657,903)	(4,657,903)				
FUND BALANCE - CURRENT YEAR	(1,055,120)	(2,114,653)	(2,630,066)	(3,606,062)	(4,754,150)	(4,882,804)	(4,133,179)	(4,839,435)				
TOTAL FUND BALANCE	(5,714,022)	(6,772,556)	(7,287,969)	(8,263,965)	(9,412,052)	(9,540,707)	(8,791,082)	(9,497,338)	0	0	0	0
TOTAL LIABILITIES and FUND BALANCE	36,801,959	35,594,721	35,808,068	35,521,171	35,303,359	35,630,099	34,729,379	34,172,549	0	0	0	0

**VICTOR VALLEY COMMUNITY HOSPITAL
COMPARATIVE BALANCE SHEET
AS OF May 31, 2012**

ASSETS:	May-12	Apr-12	LIABILITIES AND FUND BALANCE:	May-12	Apr-12
CURRENT ASSETS			CURRENT LIABILITIES		
CASH & MARKETABLE SECURITIES			CURRENT PORTION OF LEASES	13,783	13,783
OPERATING FUNDS	2,254,822	2,875,542	CURRENT PORTION OF LONG-TERM DEBT	2,498,870	2,495,445
SELF FUNDED HEALTH INS FUND	-	-	ACCRUED INTEREST PAYABLE	61,287	58,370
CAPITATION FUNDS	495,936	495,942	ACCOUNTS PAYABLE - PRE-PETITION	10,666,920	10,666,920
MARKETABLE SECURITIES	-	-	ACCOUNTS PAYABLE - POST-PETITION	1,209,424	758,682
	<u>2,750,759</u>	<u>3,371,484</u>	ACCOUNTS PAYABLE - ACCRUAL	1,883,640	2,278,292
			ACCRUED PAYROLL (PTO & SICK)	1,822,276	1,569,994
ACCOUNTS RECEIVABLE			PAYROLL TAXES PAYABLE	(1,016)	(1,016)
ACCOUNTS RECEIVABLE - PATIENTS	39,659,995	39,815,585	EMPLOYEE HEALTH INSURANCE	-	-
ALLOWANCE FOR DOUBTFUL ACCOUNTS	(6,846,699)	(6,813,341)	OTHER PAYROLL LIABILITIES	25,120	53,065
ALLOWANCE FOR CONTRACTUALS	(27,526,037)	(27,490,341)	OTHER CURRENT LIABILITIES	807,076	807,076
NET PATIENT RECEIVABLE	<u>5,287,259</u>	<u>5,511,903</u>	SETTLEMENT PAYABLE	70,000	70,000
NET A/R %	<u>13%</u>	<u>14%</u>	DUE TO THIRD PARTY PAYORS	-	-
OTHER RECEIVABLES	1,362,404	1,087,164	IBNR	260,688	260,688
ALLOW FOR DOUBTFUL ACCOUNTS - OTHER REC'BLE	(514,710)	(514,710)	TOTAL CURRENT LIABILITIES	<u>19,318,069</u>	<u>19,031,299</u>
NET OTHER RECEIVABLES	847,694	572,454	LONG TERM LIABILITIES		
INVENTORIES	1,344,681	1,344,681	BONDS PAYABLE (NET OF UNAMORT.)	-	-
PREPAID AND OTHER	2,638,170	2,634,490	LOAN PAYABLE (Cal Mortgage)	2,907,125	2,977,697
TOTAL CURRENT ASSETS	<u>12,868,563</u>	<u>13,435,012</u>	DUE TO THIRD PARTY PAYORS (MEDI-Cal)	4,780,167	4,845,790
			DIP FINANCING	2,675,000	2,675,000
ASSETS HELD IN TRUST	<u>5,195,279</u>	<u>5,192,740</u>	CMS PAY-BACK LIABILITY	1,900,000	1,900,000
			CAPITALIZED LEASE OBLIGATIONS	19,526	20,675
FIXED ASSETS & MAJOR MOVABLES			NOTES PAYABLE LT (PHM)	6,700,000	6,700,000
LAND	374,386	374,386	DEPOSITS PAYABLE - KPC	680,659	680,660
LAND IMPROVEMENTS	1,223,256	1,223,256	DEPOSITS PAYABLE - KPC Potential DIP Liability	4,319,341	4,319,340
HOSPITAL BUILDINGS	24,935,810	24,932,335	DEFERRED REVENUE (CHOICE)	370,000	370,000
FIXED EQUIPMENT	2,893,470	2,893,470	TOTAL LONG TERM LIABILITIES	<u>24,351,818</u>	<u>24,489,162</u>
MAJOR MOVEABLE EQUIPMENT	23,791,351	23,580,453	TOTAL LIABILITIES & DEFERRED CREDITS	<u>43,669,887</u>	<u>43,520,461</u>
MINOR EQUIPMENT	-	-	FUND BALANCE - PRIOR YEAR	(4,657,903)	(4,657,903)
CONSTRUCTION IN PROGRESS	1,459,003	1,469,690	FUND BALANCE - CURR YEAR	(4,839,435)	(4,133,179)
TOTAL PROPERTY, PLANT & EQUIP.	<u>54,677,275</u>	<u>54,473,590</u>	TOTAL FUND BALANCE	<u>(9,497,338)</u>	<u>(8,791,082)</u>
LESS: ACCUMULATED DEPRECIATION	(38,568,568)	(38,371,963)	TOTAL LIABILITIES & FUND BALANCE	<u>34,172,549</u>	<u>34,729,379</u>
NET PROPERTY, PLANT & EQUIP.	<u>16,108,708</u>	<u>16,101,627</u>			
INTANGIBLES AND OTHERS	-	-			
TOTAL ASSETS	<u>34,172,549</u>	<u>34,729,379</u>			

VICTOR VALLEY COMMUNITY HOSPITAL
Statement of Financial Operations

For the Eight Months
Ended May 31, 2012

Current Month			Year to Date			
Actual	Budget	Budget Variance Fav/(Unfav)	YTD Actual	YTD Budget	YTD Variance Fav/(Unfav)	
45	59	(14)	48	53	(6)	
1,402	1,827	(425)	11,698	12,854	(1,156)	
2,539	3,144	(604)	20,212	22,148	(1,936)	
2,749	2,845	(96)	21,144	19,640	1,504	
854	1,197	(343)	7,741	8,329	(588)	
11,502,774	14,267,231	(2,764,457)	95,196,017	100,964,514	(5,768,497)	
5,924,142	5,690,649	233,493	42,047,221	40,636,605	1,410,616	
3,405,454	4,585,628	(1,180,174)	27,223,839	32,454,110	(5,230,271)	
20,832,370	24,543,508	(3,711,138)	164,467,077	174,055,229	(9,588,152)	
8,417,020	10,597,887	2,180,867	70,979,640	74,752,772	3,773,132	
4,547,711	4,304,383	(243,328)	31,346,806	30,550,112	(796,694)	
2,614,221	3,513,783	899,562	20,283,774	24,698,833	4,415,059	
-	-	-	-	-	-	
-	-	-	-	-	-	
-	-	-	(1,949,248)	-	1,949,248	
15,578,952	18,416,053	2,837,101	120,660,971	130,001,717	9,340,746	
5,253,419	6,127,455	(874,036)	43,806,106	44,053,512	(247,406)	
25%	25%	0%	27%	25%	1%	
15,404	17,750	(2,346)	115,447	139,657	(24,210)	
323,190	250,000	73,190	16,443	-	16,443	
2,455	1,000	1,455	2,116,377	1,985,780	130,597	
(31,197)	24,250	(55,447)	-	-	-	
309,852	293,000	16,852	12,184	8,000	4,184	
5,563,270	6,420,455	(857,185)	291,210	183,710	107,500	
2,256,620	2,109,816	(146,804)	2,551,661	2,317,147	234,514	
386,180	466,455	80,275	46,357,767	46,370,659	(12,892)	
2,642,800	2,576,271	(66,529)	46,357,767	46,370,659	(12,892)	
121,073	100,000	(21,073)	17,476,703	16,504,290	(972,413)	
23,493	45,000	21,507	3,449,321	3,692,413	243,092	
44,554	-	(44,554)	20,926,024	20,196,703	(729,321)	
317,663	60,000	(257,663)	867,093	795,375	(71,718)	
839,396	732,867	(106,529)	195,921	350,000	154,079	
19,798	32,500	12,702	1,965,955	1,614,427	(351,528)	
11,999	-	(11,999)	1,473,044	452,646	(1,020,398)	
7,346	28,302	20,956	6,841,505	5,897,870	(943,635)	
16,600	10,528	(6,072)	172,513	252,000	79,487	
113,988	115,000	1,012	83,640	-	(83,640)	
81,410	67,500	(13,910)	85,380	205,504	120,124	
212,998	164,862	(48,136)	108,109	81,243	(26,866)	
6,836	5,000	(1,836)	902,597	938,241	35,644	
-	6,000	6,000	438,659	505,062	66,403	
250,020	157,309	(92,711)	1,674,634	1,201,621	(473,013)	
60,272	155,345	95,073	22,957	38,343	15,386	
59,440	73,207	13,767	-	42,000	42,000	
115,574	109,064	(6,510)	1,448,580	1,216,194	(232,386)	
5,485	8,750	3,265	454,060	967,293	513,233	
58,848	65,000	6,152	513,802	572,316	58,514	
23,498	20,000	(3,498)	919,944	890,361	(29,583)	
277	12,532	12,255	60,866	68,962	8,096	
6,362	-	(6,362)	507,503	519,970	12,467	
2,710	-	(2,710)	135,957	160,412	24,455	
24,739	31,572	6,833	11,389	110,530	99,141	
1,005,745	1,288,534	282,789	49,011	-	(49,011)	
3,430,124	3,288,872	(141,252)	85,935	-	(85,935)	
6,072,924	5,865,143	(207,782)	-	-	-	
(509,653)	555,312	(1,064,965)	322,610	239,209	(83,401)	
196,605	200,000	3,395	9,354,512	9,785,486	430,974	
196,605	200,000	3,395	28,696,175	26,905,065	(1,791,110)	
(706,258)	355,312	(1,061,570)	49,622,199	47,101,768	(2,520,431)	
			Excess of Revenue over Expense	(3,264,433)	(731,109)	(2,533,324)
			Other Non-Operating Expenses			
			Amortization of Bonds	-	-	-
			Depreciation	1,575,005	1,596,724	21,719
			Settlements	-	-	-
			Total Non-Operating Expenses	1,575,005	1,596,724	21,719
			Net Income (Loss)	(4,839,438)	(2,327,833)	(2,511,605)

Victor Valley Community Hospital
PROFIT & LOSS TREND ANALYSIS
 For the Month Ending May 31, 2012

	OCT 2011	NOV 2011	DEC 2011	JAN 2012	FEB 2012	MAR 2012	APR 2012	MAY 2012	JUN 2012	JUL 2012	AUG 2012	SEP 2012	YTD 2012	YTD 2012 MO AVE.
ADC	41	44	49	45	53	57	50	45	-	-	-	-	384	47.98
PATIENT DAYS	1,273	1,313	1,512	1,405	1,538	1,753	1,502	1,402	-	-	-	-	11,698	1,462.25
ADJUSTED PATIENT DAYS	2,390	2,402	2,447	2,535	2,517	2,881	2,500	2,539	-	-	-	-	20,212	2,526.46
ER VISITS	2,559	2,438	2,504	2,842	2,571	2,908	2,573	2,749	-	-	-	-	21,144	2,643.00
OP VISITS	1,091	1,032	960	998	929	966	911	854	-	-	-	-	7,741	967.63
SURGICAL CASES	403	368	403	361	373	376	363	376	-	-	-	-	3,023	377.88
PATIENT SERVICE REVENUE:														
INPATIENT REVENUE	10,556,023	10,640,739	12,952,545	11,083,056	12,370,475	13,548,823	12,541,581	11,502,774	-	-	-	-	95,196,017	11,899,502
EMERGENCY ROOM REVENUE	5,438,074	5,159,572	4,761,007	5,695,565	4,584,126	5,324,044	5,160,691	5,924,142	-	-	-	-	42,047,221	5,255,903
OUTPATIENT REVENUE	3,824,003	3,667,582	3,249,740	3,219,337	3,290,983	3,394,064	3,172,877	3,405,454	-	-	-	-	27,223,839	3,402,980
TOTAL PATIENT REVENUE	19,818,100	19,467,893	20,963,293	19,997,959	20,245,584	22,266,931	20,874,949	20,532,370	-	-	-	-	164,467,077	20,558,385
LESS REVENUE DEDUCTIONS:														
TOTAL INPATIENT ALLOWANCE	7,596,157	8,096,754	9,553,633	8,311,062	9,779,463	9,369,796	9,855,756	8,417,020	-	-	-	-	70,979,640	8,872,455
TOTAL ER ALLOWANCE	3,926,005	3,940,321	3,499,390	4,327,628	3,457,028	3,921,950	3,726,774	4,547,711	-	-	-	-	31,346,806	3,918,351
TOTAL OUTPATIENT ALLOWANCE	2,760,730	2,800,901	2,388,593	2,446,130	-	-	2,291,136	2,614,221	-	-	-	-	20,283,774	2,535,472
QA FEES	-	-	-	-	-	-	(1,949,248)	-	-	-	-	-	(1,949,248)	(243,656)
TOTAL ALLOWANCES	14,282,891	14,837,976	15,441,616	15,084,820	15,718,321	15,791,978	13,924,418	15,576,952	-	-	-	-	120,660,971	15,082,621
NET PATIENT REVENUE	5,535,208	4,629,917	5,521,677	4,913,138	4,527,263	6,474,953	6,950,531	5,253,419	-	-	-	-	43,806,106	5,475,763
% OF NET PT REV OVER TTL PT. REV. (Excl QA)	28%	24%	26%	25%	22%	29%	24%	25%	0%	0%	0%	0%	25%	25%
% OF REV DEDUC OVER TTL PT. REV.	72%	76%	74%	75%	78%	71%	67%	75%	0%	0%	0%	0%	73%	73%
ADD OTHER REVENUE:	285,147	284,168	202,348	176,432	424,623	162,472	726,618	309,852	-	-	-	-	2,551,661	318,958
TOTAL REVENUE	5,800,355	4,914,086	5,724,025	5,089,570	4,951,886	6,637,425	7,677,149	5,563,270	-	-	-	-	46,357,767	5,794,721
OPERATING EXPENSES:														
SALARIES AND WAGES	2,273,718	2,218,399	2,214,776	2,172,205	2,082,189	2,270,232	1,988,565	2,256,620	-	-	-	-	17,476,703	2,184,588
EMPLOYEE BENEFITS	416,453	369,078	421,984	471,896	511,248	412,807	459,675	386,180	-	-	-	-	3,449,321	431,165
TOTAL SALARIES, WAGES & BENEFITS	2,690,171	2,587,477	2,636,760	2,644,101	2,593,437	2,683,039	2,448,240	2,642,800	-	-	-	-	20,926,024	2,615,753
% to Patient Net Revenue (Excl QA)	49%	56%	48%	54%	57%	41%	49%	50%	-	-	-	-	50%	50%
PROFESSIONAL FEES (MEDICAL)	95,375	90,311	101,363	102,751	107,070	117,257	131,894	121,073	-	-	-	-	867,093	108,387
PROFESSIONAL FEES (NON MEDICAL)	35,000	45,325	48,499	(16,094)	24,872	21,672	13,154	23,493	-	-	-	-	195,921	24,490
PROFESSIONAL FEES (BANKRUPTCY)	414,427	497,800	315,508	258,574	198,891	116,213	119,988	44,554	-	-	-	-	1,965,955	245,744
NURSING & OTHER REGISTRY	50,646	65,824	73,449	74,993	194,873	291,436	404,158	317,663	-	-	-	-	1,473,044	184,130
MEDICAL SUPPLIES	767,650	878,510	910,415	770,268	680,119	1,053,844	941,303	839,396	-	-	-	-	6,841,505	855,188
LAUNDRY & LINEN	24,500	22,431	18,734	23,012	19,019	20,178	24,840	19,798	-	-	-	-	172,513	21,564
APPAREL	11,155	10,738	10,299	8,166	9,413	10,222	11,646	11,999	-	-	-	-	83,640	10,455
OFFICE SUPPLIES	7,390	10,431	15,263	9,658	8,429	10,241	16,622	7,346	-	-	-	-	85,380	10,672
MINOR EQUIPMENT	5,091	17,866	15,414	2,527	16,143	17,191	17,278	16,600	-	-	-	-	108,109	13,514
NON MEDICAL SUPPLIES	133,241	91,036	115,227	90,820	101,908	141,822	114,556	113,988	-	-	-	-	902,597	112,825
PURCHASED SERVICES (MEDICAL)	32,562	46,666	48,171	35,955	45,665	69,620	78,590	81,410	-	-	-	-	438,659	54,832
PURCHASED SERVICES (NON MEDICAL)	156,217	134,845	181,772	198,670	294,892	235,814	259,426	212,998	-	-	-	-	1,674,634	209,329
LEGAL FEES	3,343	476	859	-	3,158	6,073	2,211	6,836	-	-	-	-	22,957	2,870
ADVERTISING	-	-	-	-	-	-	-	-	-	-	-	-	-	-
REPAIRS & MAINTENANCE	153,508	124,959	129,399	174,986	198,649	118,534	298,525	250,020	-	-	-	-	1,448,580	181,072
RENTS & LEASES	63,528	46,350	55,424	58,941	52,115	52,574	64,855	60,272	-	-	-	-	454,060	56,757
UTILITIES & TELEPHONE	68,955	69,259	62,997	63,490	70,477	62,349	56,835	59,440	-	-	-	-	513,802	64,225
INSURANCE	117,074	116,561	112,517	115,574	113,857	113,857	115,574	115,574	-	-	-	-	919,944	114,994
LICENSES & TAXES	7,712	5,412	10,124	6,454	10,733	7,503	7,443	5,485	-	-	-	-	60,866	7,608
INTEREST EXPENSE	64,970	64,469	64,416	64,707	62,154	63,640	64,299	58,848	-	-	-	-	507,503	63,438
DUES & SUBSCRIPTIONS	20,412	7,990	18,524	19,737	15,183	15,876	14,738	23,498	-	-	-	-	135,957	16,995
TRAINING AND EDUCATION	699	1,081	31	3,882	3,359	945	1,115	277	-	-	-	-	11,389	1,424
TRAVEL AND ENTERTAINMENT	5,137	6,046	5,384	11,552	4,926	4,661	4,943	6,362	-	-	-	-	49,011	6,126
RECRUITING EXPENSE	-	-	567	-	36,000	37,626	9,032	2,710	-	-	-	-	85,935	10,742
MANAGEMENT FEES	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OTHER OPERATING EXPENSES	42,955	61,880	60,805	34,635	19,218	55,556	22,822	24,739	-	-	-	-	322,610	40,326
AMORTIZATION OF BONDS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DEPRECIATION	196,724	196,592	197,467	195,989	196,914	197,005	196,708	196,605	-	-	-	-	1,575,005	196,876
BAD DEBTS ADJUSTMENTS	1,688,030	772,264	1,030,050	1,111,218	1,019,143	1,241,333	1,486,728	1,005,745	-	-	-	-	9,354,512	1,169,314
TOTAL NON-SALARY OPERATING EXPENSES	4,166,304	3,385,142	3,602,678	3,421,465	3,506,536	4,083,041	4,479,284	3,626,729	-	-	-	-	30,271,180	3,783,897
TOTAL OPERATING EXPENSES:	6,856,475	5,972,619	6,239,438	6,065,566	6,099,973	6,766,080	6,927,524	6,269,529	-	-	-	-	51,197,204	6,399,651
GAIN (LOSS) FROM OPERATIONS	(1,056,120)	(1,058,533)	(515,413)	(975,996)	(1,148,087)	(128,655)	749,625	(706,258)	-	-	-	-	(4,839,438)	(604,930)
OTHER NON-OPERATING INCOME/EXPENSES														
SETTLEMENTS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
NET INCOME (LOSS)	(1,056,120)	(1,058,533)	(515,413)	(975,996)	(1,148,087)	(128,655)	749,625	(706,258)	-	-	-	-	(4,839,438)	(604,930)

Victor Valley Community Hospital
Statement of Cash Flow
May 2012

Calculation of Net Operating Cash Inflows/(Outflows)

Net Income (Loss)	(706,258)
Add Non-Cash Expenses	
Depreciation	196,605
Amortization	-
Income net of Non-Cash Expenses	(509,653)
(Incr)/Decr in Net Patient A/R	224,644
(Incr)/Decr in Inventory	-
(Incr)/Decr in Prepaid & Other Receivables	(278,920)
(Incr)/Decr in Assets held in Trust	(2,539)
Incr/(Decr) in A/P - Pre-Petition	-
Incr/(Decr) in A/P - Post-Petition	450,742
Incr/(Decr) All Other Current Liabilities	(170,314)
Operating Cash Inflows/(Outflows)	(286,040)

Investing Cash Inflows/(Outflows)

Capital Expenditures	(203,685)
Other Investing Inflows/(Outflows)	-
Investing Cash Inflow/(Outflow)	(203,685)

Financing Cash Inflows/(Outflows)

Incr/(Decr) in LT Debt - Bonds Payable	-
Incr/(Decr) in LT Debt - DCB Loan	(70,572)
Incr/(Decr) in LT Debt - Third Party Payors	(65,624)
Incr/(Decr) in LT Debt - DIP Financing	-
Incr/(Decr) in LT Debt - Deferred Revenue (QAF)	-
Other Financing Inflow/(Outflow)	1,768
Financing Cash Inflow/(Outflow)	(134,427)
Net Cash Inflows/(Outflows)	(624,153)

Incr/(Decr) in Cash	(620,725)
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Variance Change in Cash to Cash Inflow/(Outflow)

Roll Forward of Cash Balance

Cash Balance per Books, Beg	3,371,484
Net Cash Inflow/(Outflow)	(620,725)
Operating Cash Balance, End	2,750,759
Cash Balance per Books	2,750,759
Variance Roll forward Cash to Book Cash	-

VICTOR VALLEY COMMUNITY HOSPITAL
STATISTICAL SUMMARY - FY 2012

		OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	TOTAL	AVE.MO/PLY
OPERATING STATISTICS															
Licensed Beds		63	63	101	101	101	101	101	101					92	101
Days in Month		31	30	31	31	29	31	30	31					31	30.40
Admissions		416	410	455	425	401	448	433	513					3,501	550
Patient days:															
	ICU	129	92	147	69	171	140	159	94					1,001	186
	MEDICAL	472	548	910	932	1,042	1,209	967	959					7,039	490
	SURGICAL	71	101	85	45	34	48	42	60					486	271
	TELEMETRY	304	284	25	0	0	0	0	0					613	324
	NICU	7	9	8	6	9	8	7	7					81	41
	OBSTETRICS	249	206	253	232	185	221	219	246					1,811	304
	PEDIATRIC	41	73	84	121	97	127	108	36					687	148
	Total patient days	1,273	1,313	1,512	1,405	1,538	1,753	1,502	1,402					11,698	1,764
	NURSERY	210	161	208	181	148	162	174	192					1,436	230
Adjusted Patient Days		2,390	2,402	2,447	2,535	2,517	2,881	2,500	2,539	0	0	0	0	20,210	2,870
Adjusted Revenue		1.88	1.83	1.62	1.80	1.64	1.64	1.66	1.81					1.73	1.63
Occupancy Percentage: Licensed Beds		65.2%	69.5%	48.3%	44.9%	52.5%	56.0%	49.6%	44.8%	0.0%	0.0%	0.0%	0.0%	52.4%	57.4%
Average Daily Census		41.1	43.8	48.8	45.3	53.0	56.5	50.1	45.2	0.0	0.0	0.0	0.0	47.9	58.0
Adj Occupied Beds		77	80	79	82	87	93	83	82	0	0	0	0	83	94
Average Length of Stay		2.9	3.3	3.1	3.3	3.5	3.8	3.5	3.4					3.4	3.1
Deliveries		118	109	119	101	86	97	108	113					851	138
E/R Visits		2,559	2,438	2,504	2,842	2,571	2,908	2,573	2,749					21,144	2,676
ER Admissions		200	179	201	189	208	221	193	179					1,570	262
% of Admissions from E/R		48.1%	43.7%	44.2%	44.5%	51.9%	49.3%	44.6%	34.9%					44.8%	47.6%
LWOBS		84	108	126	226	212	295	237	189					1,477	157
% of ER Visits LWOBS		3.3%	4.4%	5.0%	8.0%	8.2%	10.1%	9.2%	6.9%						
Outpatient Visits		1,091	1,032	960	998	929	966	911	854					7,741	1,205
InPat Surgery		131	142	166	129	135	125	137	131					1,096	215
OutPat Surgery		272	226	237	232	238	251	226	245					1,927	251
GI Lab Procedures															
	IP	32	49	27	35	34	42	46	35					300	38
	OP	73	95	54	29	39	33	2	9					334	62
Average Daily Census:															
	ICU	4.2	3.1	4.7	2.2	5.9	4.5	5.3	3.0					4.1	6.1
	MEDICAL	15.2	18.3	29.4	30.1	35.9	39.0	32.2	30.9					28.8	16.1
	SURGICAL	2.3	3.4	2.7	1.5	1.2	1.5	1.4	1.9					2.0	8.9
	TELEMETRY	9.8	9.5	0.8	0.0	0.0	0.0	0.0	0.0					2.5	10.6
	NICU	0.2	0.3	0.3	0.2	0.3	0.3	0.2	0.2					0.3	1.3
	OBSTETRICS	8.0	6.9	8.2	7.5	6.4	7.1	7.3	7.9					7.4	10.6
	PEDIATRIC	1.3	2.4	2.7	3.9	3.3	4.1	3.6	1.2					2.8	4.9
Average Length of Stay:															
	ICU	5.1	4.8	4.1	2.3	3.4	3.6	3.5	5.2					4.1	4.9
	MEDICAL	3.1	4.3	4.0	4.1	4.4	5.0	4.4	4.2					4.3	3.7
	SURGICAL	1.9	2.4	1.7	2.1	1.6	2.0	0.8	2.0					1.8	2.9
	TELEMETRY	3.4	4.1	3.2	0.0	0.0	0.0	0.0	0.0					3.7	3.6
	NICU	1.0	1.1	2.0	1.0	1.1	1.0	4.0	1.0					1.4	3.5
	OBSTETRICS	2.1	1.9	2.1	2.2	2.0	2.1	2.0	2.1					2.1	2.1
	PEDIATRIC	2.8	2.9	2.6	2.6	2.9	2.7	4.2	2.5					2.9	3.0

VICTOR VALLEY COMMUNITY HOSPITAL
STATISTICAL SUMMARY - FY 2012

		OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	TOTAL	AVE.MO/PLY	
Discharges	ICU	25	21	29	7	29	17	33	16					177	38	
	MEDICAL	149	120	215	236	223	268	257	232					1,700	134	
	SURGICAL	26	47	52	20	18	24	27	26					240	95	
	TELEMETRY	88	72	11	0	0	0	0	0					171	93	
	NICU	8	8	5	7	10	9	7	9					63	12	
	OBSTETRICS	124	101	132	97	91	112	109	112					878	143	
	PEDIATRIC	17	27	29	44	37	47	30	15					246	49	
	Total excl nursery	437	396	473	411	408	477	463	410		0	0	0	0	3,475	563
	NURSERY	116	94	120	87	75	95	100	100						787	126
	Discharge Days	ICU	127	101	118	16	98	62	117	83					722	183
MEDICAL		468	518	870	966	991	1,344	1,126	967					7,250	490	
SURGICAL		50	113	90	42	28	47	21	51					442	275	
TELEMETRY		299	298	35	0	0	0	0	0					632	330	
NICU		8	9	10	7	11	9	28	9					91	42	
OBSTETRICS		264	189	279	213	186	235	217	236					1,819	303	
PEDIATRIC		47	77	76	114	106	129	126	38					713	148	
Total excl nursery		1,263	1,305	1,478	1,358	1,420	1,826	1,635	1,384		0	0	0	0	11,669	1,771
NURSERY		218	150	211	173	140	175	165	181						1,413	229
Days by financial class:		MEDICARE TRADITIONAL	242	230	310	279	387	440	429	327					2,644	387
	MEDICARE MGD CARE	165	163	130	189	167	131	143	112					1,200	133	
	MEDICAL TRADITIONAL	128	184	206	164	185	159	128	129					1,283	260	
	MEDICAL MGD CARE	394	388	458	447	411	563	542	445					3,648	487	
	M I A	27	19	30	24	8	8	9	21					146	64	
	COMMERCIAL	95	111	167	124	123	127	134	73					954	143	
	HMO	141	133	139	104	100	153	169	129					1,068	183	
	CAPITATION	0	0	0	0	0	0	0	0					0	10	
	SELF PAY	81	85	72	74	157	172	122	166					929	97	
		1,273	1,313	1,512	1,405	1,538	1,753	1,676	1,402		0	0	0	0	11,872	1,764
Discharge Days By Financial Class																
	MEDICARE TRADITIONAL	241	210	311	248	337	451	443	380					2621	388	
	MEDICARE MGD CARE	154	196	105	207	164	155	139	102					1,222	135	
	MEDICAL TRADITIONAL	143	214	218	169	150	237	124	122					1,377	278	
	MEDICAL MGD CARE	419	357	467	424	435	519	499	455					3,575	523	
	M I A	28	12	26	30	7	36	14	19					172	57	
	COMMERCIAL	95	112	131	127	124	144	111	69					913	150	
	HMO	125	153	143	110	104	156	155	115					1,061	195	
	CAPITATION	0	0	0	0	0	0	0	0					0	10	
	SELF PAY	58	51	77	43	99	128	150	122					728	95	
		1263	1305	1478	1358	1420	1826	1635	1384	0	0	0	0	11669	1830	
Discharges By Financial Class																
	MEDICARE TRADITIONAL	64	48	66	58	60	71	86	61					514	83	
	MEDICARE MGD CARE	47	45	40	61	40	49	43	30					355	47	
	MEDICAL TRADITIONAL	54	51	59	41	43	50	40	44					382	92	
	MEDICAL MGD CARE	140	124	156	150	148	183	163	171					1,235	195	
	M I A	12	5	8	8	3	3	5	7					51	16	
	COMMERCIAL	45	45	49	30	45	45	42	30					331	56	
	HMO	52	63	66	49	36	44	50	40					400	76	
	CAPITATION	0	0	0	0	0	0	0	0					0	3	
	SELF PAY	23	15	29	14	33	32	34	27					207	29	
		437	396	473	411	408	477	463	410	0	0	0	0	3475	597	

VICTOR VALLEY COMMUNITY HOSPITAL
STATISTICAL SUMMARY - FY 2012

		OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	TOTAL	AVE.MO/PY
Hospital Case Mix Index		0.86	0.90	0.92	0.96	1.04	0.98	1.05	0.97					0.96	0.89
Medicare:	Percentage of Days	19.0%	17.5%	20.5%	19.9%	25.2%	25.1%	28.6%	23.3%	0.0%	0.0%	0.0%	0.0%	22.6%	21.9%
	Discharge Days	241	210	311	248	337	451	443	380	0	0	0	0	2,621	388
	Discharges	64	48	66	58	60	71	86	61	0	0	0	0	514	83
	Average Length of Stay	3.8	4.4	4.7	4.3	5.6	6.4	5.2	6.2	0.0	0.0	0.0	0.0	5.1	4.7
	Case-Mix Index	1.20	1.20	1.37	1.35	1.66	1.36	1.43	1.56					1.39	1.38
Medicare Managed Care:	Percentage of Days	13.0%	12.4%	8.6%	13.5%	10.9%	7.5%	9.5%	8.0%	0.0%	0.0%	0.0%	0.0%	10.3%	7.5%
	Discharge Days	154	196	105	207	164	155	139	102	0	0	0	0	1,222	135
	Discharges	47	45	40	61	40	49	43	30	0	0	0	0	355	47
	Average Length of Stay	3.3	4.4	2.6	3.4	4.1	3.2	3.2	3.4	0.0	0.0	0.0	0.0	3.4	2.9
	Case-Mix Index	1.28	1.25	1.42	1.42	1.93	1.38	1.61	1.40					1.46	1.28
Medi-Cal:	Percentage of Days	10.1%	14.0%	13.6%	11.7%	12.0%	9.1%	8.5%	9.2%	0.0%	0.0%	0.0%	0.0%	11.0%	14.7%
	Discharge Days	143	214	218	169	150	237	124	122	0	0	0	0	1,377	279
	Discharges	54	51	59	41	43	50	40	44	0	0	0	0	382	92
	Average Length of Stay	2.6	4.2	3.7	4.1	3.5	4.7	3.1	2.8	0.0	0.0	0.0	0.0	3.6	3.0
	Case Mix Index	0.65	0.94	0.82	0.84	0.71	0.85	0.73	0.83					0.80	0.85
Medi-Cal Managed Care:	Percentage of Days	31.0%	29.6%	30.3%	31.8%	26.7%	32.1%	36.1%	31.7%	0.0%	0.0%	0.0%	0.0%	31.2%	27.6%
	Discharge Days	419	357	467	424	435	519	499	455	0	0	0	0	3,575	523
	Discharges	140	124	156	150	148	183	163	171	0	0	0	0	1,235	195
	Average Length of Stay	3.0	2.9	3.0	2.8	2.9	2.8	3.1	2.7	0.0	0.0	0.0	0.0	2.9	2.7
	Case Mix Index	0.79	0.73	0.77	0.82	0.80	0.84	0.96	0.79					0.81	0.79
County Indigent Programs	Percentage of Days	2.1%	1.4%	2.0%	1.7%	0.5%	0.5%	0.6%	1.5%	0.0%	0.0%	0.0%	0.0%	1.2%	3.6%
	Discharge Days	28	12	26	30	7	36	14	19	0	0	0	0	172	57
	Discharges	12	5	8	8	3	3	5	7	0	0	0	0	51	16
	Average Length of Stay	2.3	2.4	3.3	3.8	2.3	12.0	2.8	2.7	0.0	0.0	0.0	0.0	3.4	4.3
	Case Mix Index	0.85	0.80	1.08	0.76	0.90	1.38	0.69	0.94					0.92	1.23
Managed Care HMO/PPO	Percentage of Days	11.1%	10.1%	9.2%	7.4%	6.5%	8.7%	11.3%	9.2%	0.0%	0.0%	0.0%	0.0%	9.1%	10.4%
	Discharge Days	125	153	143	110	104	156	155	115	0	0	0	0	1,061	195
	Discharges	52	63	66	49	36	44	50	40	0	0	0	0	400	76
	Average Length of Stay	2.4	2.4	2.2	2.2	2.9	3.5	3.1	2.9	0.0	0.0	0.0	0.0	2.7	2.6
	Case Mix Index	0.84	0.88	0.79	0.83	1.08	1.16	0.88	1.08					0.94	0.91
Commercial/WC	Percentage of Days	7%	8%	11%	9%	8%	7%	9%	5%	0%	0%	0%	0%	8.2%	8.1%
	Discharge Days	95	112	131	127	124	144	111	69	0	0	0	0	913	150
	Discharges	45	45	49	30	45	45	42	30	0	0	0	0	331	56
	Average Length of Stay	2.1	2.5	2.7	4.2	2.8	3.2	2.6	2.3	0.0	0.0	0.0	0.0	2.8	2.7
	Case Mix Index	0.66	0.88	1.02	1.00	0.81	0.91	0.82	0.94					0.88	1.11
Self Pay	Percentage of Days	6%	6%	5%	5%	10%	10%	8%	12%	0%	0%	0%	0%	7.9%	5.5%
	Discharge Days	58	51	77	43	99	128	150	122	0	0	0	0	728	95
	Discharges	23	15	29	14	33	32	34	27	0	0	0	0	207	29
	Average Length of Stay	2.5	3.4	2.7	3.1	3.0	4.0	4.4	4.5	0.0	0.0	0.0	0.0	3.5	3.3
	Case Mix Index	0.94	1.02	0.83	0.77	1.15	0.77	1.25	0.84					0.95	0.62

VICTOR VALLEY COMMUNITY HOSPITAL
STATISTICAL SUMMARY - FY 2012

	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	TOTAL	AVE.MO/PY
Percent to Patient Revenue														
Revenue Deductions	72.1%	76.2%	73.7%	75.4%	77.6%	70.9%	66.7%	74.8%					73.4%	76.4%
Salaries & Wages	11.5%	11.4%	10.6%	10.9%	10.3%	10.2%	9.5%	10.8%					10.6%	11.1%
Medical Supplies	3.9%	4.5%	4.3%	3.9%	3.4%	4.7%	4.5%	4.0%					4.2%	3.7%
Total Operating Expenses	33.6%	29.7%	28.8%	29.3%	29.2%	29.5%	32.2%	29.2%					30.2%	25.6%
Net Income (Loss)	-5.3%	-5.4%	-2.5%	-4.9%	-5.7%	-0.6%	3.6%	-3.4%					-2.9%	0.4%
Avg Daily Net Patient Revenue	178,555	154,331	178,119	158,488	156,113	208,869	231,684	169,465	0	0	0	0	119,635	
Avg Daily Operating Expense	214,831	192,534	194,902	189,309	203,554	211,906	224,361	195,901	0	0	0	0	135,608	
	(36,276)	(38,204)	(16,784)	(30,821)	(47,441)	(3,036)	7,324	(26,436)	0	0	0	0	-15,973	
Avg Wages by Patient Day	2,113	1,971	1,744	1,882	1,686	1,531	1,630	1,885					1,805	
Avg Op Exp (w/o wages) by Patient Day	1,792	1,840	1,571	1,504	1,489	1,509	1,861	1,729					1,662	
	3,906	3,811	3,315	3,386	3,175	3,039	3,491	3,614	0	0	0	0	2,311	
Labor Utilization														
Worked FTE's per Occupied Bed	10.3	9.8	8.2	9.2	8.3	7.9	9.2	9.6					1.1	
Worked FTE's per Adj Occ Bed	5.5	5.4	5.0	5.1	5.1	4.8	5.5	5.3					0.7	
OT - % of Total Worked Hours	5.7%	5.6%	10.7%	8.8%	7.3%	8.2%	7.9%	7.6%	0.0%	0.0%	0.0%	0.0%	7.7%	
Paid FTE's per Occupied Bed	11.5	11.2	9.1	10.0	8.9	8.5	9.8	10.7					1.2	
Paid FTE's per Adj Occ Bed	6.1	6.1	5.6	5.6	5.4	5.2	5.9	5.9					0.7	
Worked FTE	423	430	398	416	441	447	460	433					431	
Paid FTE	471	491	443	455	470	483	493	486					474	
Total Paid Hours (Productive & Non-Productive Hours) **	82,341	82,749	76,900	79,058	74,638	80,809	77,888	80,848	0	0	0	0	635,231	
Total Worked Hours (Productive Hours ONLY) *	73,897	72,301	69,052	72,177	69,782	74,448	72,265	71,555	0	0	0	0	575,477	
Total Registry Hours	873	1,135	1,266	1,293	3,058	4,573	6,342	4,985	0	0	0	0	23,524	
Worked Hours	69,715	68,240	61,635	65,824	64,663	68,367	66,564	66,102					531,110	
OT/DT Hours	4,182	4,061	7,417	6,353	5,119	6,081	5,701	5,453					44,367	
Total Worked Hours *	73,897	72,301	69,052	72,177	69,782	74,448	72,265	71,555	0	0	0	0	575,477	
Non-Productive Hours	8,444	10,448	7,848	6,881	4,856	6,361	5,623	9,293					59,754	
Total Paid Hours **	82,341	82,749	76,900	79,058	74,638	80,809	77,888	80,848	0	0	0	0	635,231	
TREND PRICE VARIANCE														
Registry Expense	50,646	65,824	73,449	74,993	194,873	291,436	404,158	317,663					1,473,044	
Salaries & Wages	2,273,718	2,218,399	2,214,776	2,172,205	2,082,189	2,270,232	1,988,565	2,256,620					17,476,703	
Salaries & Wages/per Calendar day	73,346	73,947	71,444	70,071	71,800	73,233	66,285	72,794					573,007	
Salaries & Wages/per Patient Day	1,786	1,690	1,465	1,546	1,354	1,295	1,324	1,610					1,494	
Salaries & Wages/per Adj Patient Day	951	923	905	857	827	788	795	889					865	
Salaries & Wages- Hrly Rate per Total Paid Hours	27.61	26.81	28.80	27.48	27.90	28.09	25.53	27.91					27.51	
Salaries, Wages & Registry - Hrly Rate per Total Paid Hours	27.93	27.23	29.27	27.97	29.31	30.00	28.41	29.99					28.77	

Victor Valley Community Hospital
Trend Analysis of Revenue By Financial Class
For the Month Ending May 31, 2012

	31	30	31	31	29	31	30	31	30	31	31	30							
	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	FY12 YTD TOTAL	FY12 %OF TOTAL	FY12 AVERAGE MONTH	FY11 YTD TOTAL	FY11 %OF TOTAL	FY11 AVERAGE MONTH	
INPATIENT REVENUE																			
SELF PAY	416,419	(3,614)	208,872	110,090	640,782	541,681	631,566	323,905					2,869,700	3.01%	358,713	4,137,732	2.48%	344,811	
PPO/HMO	1,153,099	1,463,069	1,444,795	920,139	961,646	1,237,678	1,223,857	1,118,017					9,522,300	10.00%	1,190,287	16,134,280	9.66%	1,344,523	
COMMERCIAL	744,064	979,251	1,682,795	834,958	1,093,265	1,024,240	885,584	601,748					7,845,904	8.24%	980,738	14,549,408	8.71%	1,212,451	
MEDICARE	1,899,397	1,976,871	2,466,436	2,301,712	2,946,710	3,093,589	3,251,231	2,870,361					20,806,306	21.86%	2,600,788	36,764,100	22.02%	3,063,675	
MEDICARE SENIOR	1,526,898	1,200,994	1,123,284	2,028,914	1,581,764	1,358,739	1,509,660	1,018,309					11,348,561	11.92%	1,418,570	22,697,562	13.59%	1,891,463	
MEDI-CAL	1,423,825	2,195,204	2,103,124	1,328,172	1,767,353	1,357,335	946,289	1,644,717					12,766,020	13.41%	1,595,752	26,017,962	15.58%	2,168,164	
MEDI-CAL MGD CARE	3,126,836	2,739,391	3,592,807	3,416,690	3,265,206	4,667,210	3,966,716	3,418,671					28,193,528	29.62%	3,524,191	42,922,805	25.70%	3,576,900	
MIA	230,683	85,589	236,164	123,113	60,874	165,787	98,281	521,839					1,522,330	1.60%	190,291	3,056,126	1.83%	254,677	
CAPITATED	-	-	-	-	-	-	-	-					-	0.00%	-	(23,872)	-0.01%	(1,989)	
OTHER	18,982	-	31,204	-	33,768	37,012	-	-					120,967	0.13%	15,121	152,495	0.09%	12,708	
HARDSHIP	-	3,983	63,065	19,269	-	62,159	16,153	(35,435)					129,195	0.14%	16,149	326,823	0.20%	27,235	
WORKMAN'S COMP	15,819	-	-	-	19,107	3,393	12,244	20,643					71,207	0.07%	8,901	250,253	0.15%	20,854	
TOTAL	10,556,023	10,640,739	12,952,545	11,083,056	12,370,475	13,548,823	12,541,581	11,502,774					95,196,017	100.00%	11,899,502	166,985,674	100.00%	13,915,473	
EMERGENCY ROOM REVENUE																			
SELF PAY	1,094,630	885,534	874,857	1,112,863	854,714	804,181	836,888	993,591					7,447,258	17.71%	930,907	14,525,265	19.25%	1,210,439	
PPO/HMO	366,763	363,593	371,508	331,891	321,187	442,085	335,226	417,967					2,950,220	7.02%	368,778	5,737,563	7.61%	478,130	
COMMERCIAL	436,970	389,356	329,456	424,636	298,839	464,279	391,691	440,670					3,175,897	7.55%	396,987	5,386,950	7.14%	448,912	
MEDICARE	259,951	327,701	256,291	348,686	438,239	551,225	517,303	324,312					3,023,708	7.19%	377,964	4,361,425	5.78%	363,452	
MEDICARE SENIOR	243,574	299,103	173,967	321,555	235,320	239,652	241,064	348,678					2,102,911	5.00%	262,864	3,426,763	4.54%	285,564	
MEDI-CAL	521,242	468,916	399,847	487,264	336,169	552,834	441,350	403,081					3,610,703	8.59%	451,338	8,432,145	11.18%	702,679	
MEDI-CAL MGD CARE	2,413,262	2,277,485	2,243,613	2,549,077	2,061,568	2,148,490	2,230,176	2,703,984					18,627,655	44.30%	2,328,457	31,600,587	41.89%	2,633,382	
MIA	34,676	29,838	27,826	71,952	15,992	20,700	85,910	140,931					427,825	1.02%	53,478	656,680	0.87%	54,723	
CAPITATED	-	-	-	-	-	-	-	-					-	0.00%	-	-	0.00%	-	
OTHER	17,710	9,790	4,621	23,094	5,908	1,179	18,424	3,577					84,302	0.20%	10,538	184,651	0.24%	15,388	
HARDSHIP	44,397	78,636	67,532	7,480	3,005	95,480	42,729	141,424					480,682	1.14%	60,085	865,216	1.15%	72,101	
WORKMAN'S COMP	14,899	29,620	11,489	17,067	13,186	19,932	19,932	5,927					116,059	0.28%	14,507	262,004	0.35%	21,834	
TOTAL	5,438,074	5,159,572	4,761,007	5,695,565	4,584,126	5,324,044	5,160,691	5,924,142					42,047,221	100.00%	5,255,903	75,439,249	100.00%	6,286,604	
OUTPATIENT REVENUE																			
SELF PAY	28,123	44,023	64,514	36,886	46,839	19,759	50,923	16,286					307,352	1.13%	38,419	534,571	1.09%	44,548	
PPO/HMO	793,369	598,152	711,070	613,140	637,487	649,055	650,973	559,746					5,212,991	19.15%	651,624	9,300,195	18.93%	775,016	
COMMERCIAL	479,877	679,111	620,702	490,110	518,950	593,405	526,625	586,819					4,495,600	16.51%	561,950	8,199,522	16.69%	683,294	
MEDICARE	404,586	265,438	253,028	205,423	340,356	383,620	453,700	307,168					2,613,319	9.60%	326,665	6,138,872	12.50%	511,573	
MEDICARE SENIOR	593,379	690,942	375,081	433,957	428,478	403,618	344,888	523,034					3,793,376	13.94%	474,172	6,994,222	14.24%	582,852	
MEDI-CAL	330,429	286,239	207,314	321,441	173,097	279,553	156,629	258,861					2,013,563	7.40%	251,695	4,141,957	8.43%	345,163	
MEDI-CAL MGD CARE	1,180,448	1,065,679	1,013,379	1,049,892	1,141,849	1,018,444	938,487	1,123,396					8,531,573	31.34%	1,066,447	13,259,273	26.99%	1,104,939	
MIA	(10,593)	-	-	-	-	-	-	-					(10,593)	-0.04%	(1,324)	10,593	0.02%	883	
CAPITATED	-	-	-	-	-	-	-	-					-	0.00%	-	(2,235)	0.00%	(186)	
OTHER	-	-	-	-	-	-	1,180	2,058					3,238	0.01%	405	7,096	0.01%	591	
HARDSHIP	-	-	-	-	-	-	11,672	14,810					26,482	0.10%	3,310	33,152	0.07%	2,763	
WORKMAN'S COMP	24,386	37,998	4,652	68,489	3,927	46,609	37,600	10,820					234,481	0.86%	29,310	507,955	1.03%	42,330	
TOTAL	3,824,003	3,667,582	3,249,740	3,219,337	3,290,983	3,394,064	3,172,677	3,402,997					27,221,382	100.00%	3,402,673	49,125,172	100.00%	4,093,764	
PATIENT REVENUE - IP OP ER																			
SELF PAY	1,529,172	925,943	1,148,242	1,259,839	1,542,334	1,365,622	1,519,376	1,333,783					10,624,310	6.46%	1,201,119	19,197,568	6.58%	1,599,797	
PPO/HMO	2,313,230	2,424,813	2,527,374	1,865,170	1,920,320	2,328,819	2,210,056	2,095,730					17,685,511	10.75%	2,421,806	31,172,039	10.69%	2,597,670	
COMMERCIAL	1,660,911	2,047,718	2,632,954	1,749,704	1,911,053	2,081,924	1,803,900	1,629,237					15,517,401	9.44%	2,113,861	28,135,880	9.65%	2,344,657	
MEDICARE	2,563,934	2,570,010	2,975,755	2,855,821	3,725,306	4,028,434	4,222,233	3,501,840					26,443,333	16.08%	2,703,233	47,264,397	16.21%	3,938,700	
MEDICARE SENIOR	2,363,850	2,191,039	1,672,331	2,784,425	2,245,562	2,002,009	2,095,612	1,890,021					17,244,849	10.49%	2,075,740	33,118,547	11.36%	2,759,879	
MEDI-CAL	2,275,496	2,950,359	2,710,285	2,136,878	2,276,619	2,189,721	1,544,269	2,306,658					18,390,285	11.88%	2,645,380	38,592,064	13.24%	3,216,005	
MEDI-CAL MGD CARE	6,720,546	6,082,556	6,849,799	7,015,659	6,468,624	7,834,144	7,135,379	7,246,051					55,352,756	33.66%	6,550,967	87,782,664	30.11%	7,315,222	
MIA	254,766	115,427	263,990	195,065	76,866	186,486	184,191	662,770					1,939,561	1.18%	211,394	3,723,399	1.28%	310,283	
CAPITATED	-	-	-	-	-	-	-	-					-	0.00%	-	(26,107)	-0.01%	(2,176)	
OTHER	36,692	9,790	35,825	23,094	39,676	38,191	19,604	5,635					208,507	0.13%	27,436	344,242	0.12%	28,687	
HARDSHIP	44,397	82,619	130,597	26,749	3,005	157,640	70,554	120,800					636,360	0.39%	85,871	1,225,190	0.42%	102,099	
WORKMAN'S COMP	55,105	67,618	16,141	85,556	36,220	53,941	69,776	37,390					421,746	0.26%	46,288	1,020,212	0.35%	85,018	
TOTAL ALL	19,818,100	19,467,893	20,963,293	19,997,958	20,245,584	22,266,931	20,874,949	20,829,913					164,464,620	100.00%	20,083,095	291,550,095	100.00%	24,295,841	

Victor Valley Community Hospital and Foundation Consolidated
 Consolidating Balance Sheet
 As of May 31, 2012

	Hospital Only	Foundation Only	Hospital/Foundation Consolidated
ASSETS			
CASH			
OPERATING FUNDS	2,254,822	-	2,254,822
SELF FUNDED INS FUND	-	-	-
CAPITATION FUNDS	495,936	-	495,936
MARKETABLE SECURITIES	-	-	-
FOUNDATION CASH	-	263,332	263,332
TOTAL CASH	<u>2,750,759</u>	<u>263,332</u>	<u>3,014,091</u>
ACCOUNTS RECEIVABLE - PATIENTS	39,659,995	-	39,659,995
ALLOWANCE FOR DOUBTFUL ACCOUNTS	(6,846,699)	-	(6,846,699)
ALLOWANCE FOR CONTRACTUALS	(27,526,037)	-	(27,526,037)
NET PATIENT RECEIVABLE	<u>5,287,259</u>	<u>-</u>	<u>5,287,259</u>
OTHER RECEIVABLES	1,362,404	-	1,362,404
ALLOW FOR DOUBTFUL ACCOUNTS - OTHER REC'BLE	(514,710)	-	(514,710)
INVENTORIES	1,344,681	-	1,344,681
PREPAID & OTHER	2,638,170	-	2,638,170
TOTAL CURRENT ASSETS	<u>12,868,563</u>	<u>263,332</u>	<u>13,131,895</u>
ASSETS HELD IN TRUST	5,195,279	-	5,195,279
FIXED ASSETS & MAJOR MOVABLES			
LAND	374,386	-	374,386
LAND IMPROVEMENTS	1,223,256	-	1,223,256
HOSPITAL BUILDINGS	24,935,810	-	24,935,810
FIXED EQUIPMENT	2,893,470	-	2,893,470
MAJOR MOVABLE EQUIPMENT	23,791,351	-	23,791,351
MINOR EQUIPMENT	-	-	-
CONSTRUCTION IN PROGRESS	1,459,003	-	1,459,003
TOTAL PROPERTY, PLANT & EQUIP	<u>54,677,275</u>	<u>-</u>	<u>54,677,275</u>
LESS: ACCUMULATED DEPRECIATION	(38,568,568)	-	(38,568,568)
NET PROPERTY, PLANT & EQUIP.	<u>16,108,708</u>	<u>-</u>	<u>16,108,708</u>
INTANGIBLES & OTHER	-	-	-
TOTAL ASSETS	<u>34,172,549</u>	<u>263,332</u>	<u>34,435,881</u>
LIABILITIES AND FUND BALANCE			
CURRENT PORTION OF LEASES	13,783	-	13,783
CURRENT PORTION OF LONG-TERM DEBT	2,498,870	-	2,498,870
ACCRUED INTEREST PAYABLE	61,287	-	61,287
NOTES PAYABLE - OTHER	-	-	-
CURRENT PORTION OF BONDS PAYABLE	-	-	-
ACCOUNTS PAYABLE - PRE-PETITION	10,666,920	-	10,666,920
ACCOUNTS PAYABLE - POST-PETITION	1,209,424	-	1,209,424
ACCOUNTS PAYABLE - ACCRUAL	1,883,640	-	1,883,640
ACCRUED PAYROLL, VAC., HOL., SICK	1,822,276	-	1,822,276
PAYROLL TAXES PAYABLE	(1,016)	-	(1,016)
IBNR EMPLOYEE HEALTH INS	-	-	-
OTHER PAYROLL LIABILITIES	25,120	-	25,120
DUE TO/(FROM) VVCH FOUNDATION	794,625	(794,625)	-
OTHER CURRENT LIABILITIES	12,451	-	12,451
SETTLEMENT PAYABLE	70,000	-	70,000
IBNR	260,688	-	260,688
CURRENT LIABILITIES	<u>19,318,069</u>	<u>(794,625)</u>	<u>18,523,444</u>
LONG TERM LIABILITIES			
BONDS PAYABLE (NET OF UNAMORT.)	-	-	-
LOAN PAYABLE	2,907,125	-	2,907,125
DUE TO THIRD PARTY PAYORS-MEDCAL	4,780,167	-	4,780,167
DIP FINANCING	2,675,000	-	2,675,000
CMS PAY-BACK LIABILITY	1,900,000	-	1,900,000
CAPITALIZED LEASE OBLIGATION	19,526	-	19,526
NOTES PAYABLE LT - PHM	6,700,000	-	6,700,000
DEPOSIT PAYABLE - KPC	680,659	-	680,659
DEPOSIT PAYABLE - Prime Healthcare	4,319,341	-	4,319,341
DEFERRED REVENUE (CHOICE)	370,000	-	370,000
TOTAL OTHER LIABILITIES	<u>24,351,818</u>	<u>-</u>	<u>24,351,818</u>
TOTAL LIABILITIES & DEFERRED CREDITS	<u>43,669,887</u>	<u>(794,625)</u>	<u>42,875,262</u>
FUND BAL -PRIOR YR	(4,657,903)	991,278	(3,666,625)
FUND BAL -CURR YR	(4,839,435)	66,679	(4,772,756)
TOTAL FUND BALANCE	<u>(9,497,338)</u>	<u>1,057,957</u>	<u>(8,439,381)</u>
TOTAL LIABILITIES & FUND BAL	<u>34,172,549</u>	<u>263,332</u>	<u>34,435,881</u>

Victor Valley Community Hospital and Foundation Consolidated
Consolidating Income Statement
May 2012

Current Month		
Hospital May-12 Actual	Foundation May-12 Actual	Facility Consolidated Actual
45	-	45
1,402	-	1,402
2,539	-	2,539
2,749	-	2,749
854	-	854
11,502,774	-	11,502,774
5,924,142	-	5,924,142
3,405,454	-	3,405,454
20,832,370	-	20,832,370
8,417,020	-	8,417,020
4,547,711	-	4,547,711
2,614,221	-	2,614,221
-	-	-
15,578,952	-	15,578,952
15,404	-	15,404
-	-	-
323,190	-	323,190
-	-	-
2,455	-	2,455
(31,197)	-	(31,197)
309,852	-	309,852
5,563,270	-	5,563,270
2,256,620	-	2,256,620
386,180	-	386,180
2,642,800	-	2,642,800
121,073	-	121,073
23,493	-	23,493
44,554	-	44,554
317,663	-	317,663
839,396	-	839,396
19,798	-	19,798
11,999	-	11,999
7,346	-	7,346
16,600	-	16,600
113,988	-	113,988
81,410	-	81,410
212,998	-	212,998
6,836	-	6,836
-	-	-
250,020	-	250,020
60,272	-	60,272
59,440	-	59,440
115,574	-	115,574
5,485	-	5,485
58,848	-	58,848
23,498	-	23,498
277	-	277
6,362	-	6,362
2,710	-	2,710
-	-	-
24,739	10	24,749
1,005,745	-	1,005,745
3,430,124	10	3,430,134
6,072,924	10	6,072,934
(509,653)	(10)	(509,663)
-	-	-
196,605	-	196,605
-	-	-
196,605	-	196,605
(706,258)	(10)	(706,268)

	Fiscal Year to Date		
	Hospital YTD May-12 Actual	Foundation YTD May-12 Actual	Facility YTD Consolidated May-12 Actual
ADC	48	-	48
Patient Days	11,698	-	11,698
Adjusted Patient Days	20,212	-	20,210
ER Visits	21,144	-	21,144
OP Visits	7,741	-	7,741
Total Inpatient Revenue	95,196,017	-	95,196,017
Total ER Revenue	42,047,221	-	42,047,221
Total Outpatient Revenue	27,223,839	-	27,223,839
Total Revenue	164,467,077	-	164,467,077
CONT ALLOW & BAD DEBTS			
Total Inpatient Allowance	70,979,640	-	70,979,640
Total ER Allowance	31,346,806	-	31,346,806
Total Outpatient Allowance	20,283,774	-	20,283,774
Total QA Fees	(1,949,248)	-	(1,949,248)
Total Contractuals	120,660,971	-	120,660,971
Cafeteria Revenue	115,447	-	115,447
Capitation Revenue	16,443	-	16,443
DSH Money	2,116,377	-	2,116,377
Contribution	-	-	-
Copies	12,184	-	12,184
Other Misc Revenue	291,210	100,000	391,210
Total Other Revenue	2,551,661	100,000	2,651,661
Net Revenue	46,357,767	100,000	46,457,767
EXPENSES:			
Salary & Wages	17,476,703	-	17,476,703
Benefits	3,449,321	-	3,449,321
Total Salaries, Wages & Benefits	20,926,024	-	20,926,024
Professional Fees - Medical	867,093	-	867,093
Professional Fees - Non Medical	195,921	-	195,921
Professional Fees - Bankruptcy	1,965,955	-	1,965,955
Registry	1,473,044	-	1,473,044
Medical Supplies	6,841,505	-	6,841,505
Laundry, Linen	172,513	-	172,513
Apparel	83,640	-	83,640
Office Supplies	85,380	-	85,380
Minor Equipment	108,109	-	108,109
Non Medical Supplies	902,597	-	902,597
Purchased Services - Medical	438,659	-	438,659
Purchased Services - Non Medical	1,674,634	1,430	1,676,064
Legal Fees	22,957	-	22,957
Advertising	-	-	-
Repairs & Maintenance	1,448,580	-	1,448,580
Rents & Leases	454,060	-	454,060
Utilities & Telephone	513,802	-	513,802
Insurances	919,944	-	919,944
Licenses & Taxes	60,866	-	60,866
Interest Expense	507,503	-	507,503
Dues & Subscriptions	135,957	-	135,957
Training and Education	11,389	-	11,389
Travel and Entertainment	49,011	-	49,011
Recruiting Expense	85,935	-	85,935
Management Fees	-	8,750	8,750
Other Operating Expenses	322,610	163	322,773
Bad Debts Adjustments	9,354,512	-	9,354,512
Total Non-Salary Operating Expenses	28,696,175	10,343	28,706,518
Total Operating Expenses	49,622,199	10,343	49,632,542
Gain (Loss) from Operations	(3,264,433)	89,657	(3,174,776)
Other Non-Operating Expense			
Amortization of Bonds	-	-	-
Depreciation	1,575,005	22,978	1,597,983
Settlements	-	-	-
Total Non-Operating Expenses	1,575,005	22,978	1,597,983
Net Income /(Loss)	(4,839,438)	66,679	(4,772,759)

Victor Valley Community Hospital

Registry Trend Analysis

For the Month Ending May 31, 2012

	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	YTD 2012	YTD 2011	2011 AVERAGE
6010 ICU REGISTRY NURSES	5,065	15,635	8,662	19,092	63,089	62,209	91,898	81,749					347,398	299,431	24,953
6070 NURSERY INTENSIVE CARE REGISTRY						3,119	12,166	15,023					30,307	5,801	483
6171 MED/SURG REGISTRY	703	949	7,509	3,566	11,321	22,907	46,823	85,798					179,575	441,828	36,819
6172 SURG FLOOR REGISTRY													-	17,074	1,423
6290 PEDIATRICS REGISTRY				783									783	4,141	345
6380 OBSTETRICS REGISTRY			2,160			720	3,772	1,440					8,092	10,691	891
6530 NURSERY ACUTE REGISTRY													-	1,416	118
7010 EMERGENCY ROOM REGISTRY	28,625	32,987	28,578	30,363	77,518	136,840	188,914	98,907					622,732	377,864	31,489
7400 LABOR AND DELIVERY	16,254	16,254	26,541	13,657	20,416	38,048	36,124	28,779					196,073	36,139	3,012
7420 SURGERY - GENERAL REGISTRY				5,053	15,229	17,394	13,826	5,968					57,469	40,958	3,413
7427 POST PARTUM REGISTRY				2,480	7,301	10,199	7,556						27,536	39,742	3,312
7430 AMB SUG REGISTRY													-	-	-
7500 LABORATORY REGISTRY													-	6,643	554
7570 CARDIAC CATH LAB REGISTRY													-	11,963	997
7630 RADIOLOGY REGISTRY													-	11,962	997
7639 VASCULAR LAB REGISTRY													-	-	-
7650 NUCLEAR MEDICINE REGISTRY													-	38,225	3,185
7660 MRI REGISTRY NURSES													-	-	-
7670 ULTRASOUND REGISTRY													-	-	-
7680 CT SCAN REGISTRY													-	-	-
7720 RT REGISTRY													-	17,553	1,463
8340 DIETARY							3,080						3,080	12,464	1,039
8360 SOCIAL SERVICES													-	-	-
8720 ADMINISTRATION REGISTRY (ACCRL ONLY)													-	-	-
TOTAL REGISTRY	50,646	65,824	73,449	74,993	194,873	291,436	404,158	317,663	-	-	-	-	1,473,044	1,373,894	114,491
Average Registry Hours	873.21	1,134.90	1,266.37	1,292.99	3,057.79	4,572.98	6,341.73	4,984.52					2,940.56		
Average Registry FTEs	4.94	6.64	7.17	7.32	18.50	25.89	37.09	28.22					18.27		

Victor Valley Community Hospital

Premium Wage Analysis

For the Month Ending May 31, 2012

	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Total	MONTHLY AVERAGE	YEAR 2011
Overtime	181,145	160,835	290,724	250,076	206,219	222,456	205,626	204,845					1,721,926	215,241	2,775,261
Doubletime	27,417	31,660	40,428	34,771	33,041	47,830	47,967	31,155					294,269	36,784	436,646
Other *	265,633	293,608	240,390	205,163	158,631	183,832	169,739	279,276					1,796,272	224,534	2,723,826
TOTAL	474,195	486,103	571,542	490,010	397,891	454,118	423,332	515,276	-	-	-	-	3,812,467	476,558	5,935,733

Average Payroll	237,098	243,052	285,771	245,005	198,946	227,059	211,666	257,638	-	-	-	-	476,558		494,644
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* Other includes Paid Leave, Sick, Stand-by, Lead, Float, No Lunch, Bereavement, Jury Duty, Education and Training

** Calculations consider monthly payroll accruals

**VICTOR VALLEY COMMUNITY HOSPITAL
INCOME STATEMENT - FY 2012**

	31 OCT	30 NOV	31 DEC	31 JAN	29 FEB	31 MAR	30 APR	31 MAY	30 JUN	31 JUL	31 AUG	30 SEP	YTD 2012	YTD 2011 MTD AVE
OPERATING REVENUE														
PATIENT REVENUE														
INPATIENT REVENUE	10,556,023	10,640,739	12,952,545	11,083,056	12,370,475	13,548,823	12,541,581	11,502,774					95,196,017	11,899,502
EMERGENCY ROOM REVENUE	5,438,074	5,159,572	4,761,007	5,699,565	4,584,126	5,324,044	5,160,691	5,924,142					42,047,221	5,255,903
OUTPATIENT REVENUE	3,824,003	3,667,582	3,249,740	3,219,337	3,290,983	3,394,064	3,172,677	3,405,454					27,223,839	3,402,980
TOTAL PATIENT REVENUE	19,818,100	19,467,893	20,963,293	19,997,958	20,245,584	22,266,931	20,874,949	20,832,370					164,467,077	20,558,385
DEDUCTIONS FROM REVENUE														
CONTRACTUAL ADJUSTMENTS IP	7,596,157	8,096,754	9,553,633	8,311,062	9,779,463	9,369,796	9,855,756	8,417,020					70,979,640	8,872,455
CONTRACTUAL ADJUSTMENT ER	3,926,005	3,940,321	3,499,390	4,327,628	3,457,028	3,921,950	3,726,774	4,547,711					31,346,806	3,918,351
CONTRACTUAL ADJUSTMENT OP	2,760,730	2,800,901	2,388,593	2,446,130	2,481,830	2,500,232	2,291,136	2,614,221					20,283,774	2,535,472
COST REPORT ADJUSTMENTS	-	-	-	-	-	-	-	-					-	-
OTHER DEDUCTIONS	-	-	-	-	-	-	-	-					-	-
QA FEES	-	-	-	-	-	-	(1,949,248)	-					(1,949,248)	(243,656)
TOTAL DEDUCTIONS FROM REVENUE	14,282,891	14,837,976	15,441,616	15,084,820	15,718,321	15,791,978	13,924,418	15,578,952					120,650,971	15,082,621
NET PATIENT REVENUE	5,535,208	4,629,917	5,521,677	4,913,138	4,527,263	6,474,953	6,950,531	5,253,419					43,806,106	5,475,763
	28%	24%	26%	25%	22%	29%	24%	25%					27%	27%
OTHER REVENUE														
CAFETERIA REVENUE	15,407	12,827	8,368	11,229	15,941	21,618	14,654	15,404					115,447	14,431
CAPITATION REVENUE	-	-	16,443	-	-	-	-	-					16,443	2,055
D S H	235,780	250,000	115,000	160,282	403,374	-	628,751	323,190					2,116,377	264,547
CONTRIBUTIONS	-	-	-	-	-	-	-	-					-	-
COPIES	-	-	-	2,115	3,547	1,870	2,197	2,455					12,184	1,523
OTHER MISC REVENUE	13,960	21,341	62,537	2,806	1,761	138,984	81,017	(31,197)					291,210	36,401
	265,147	284,168	202,348	176,432	424,623	162,472	726,618	309,852					2,551,661	318,958
TOTAL OPERATING REVENUE	5,800,355	4,914,086	5,724,025	5,089,570	4,951,886	6,637,425	7,677,149	5,563,270					46,357,767	5,794,721
OPERATING EXPENSES														
SALARIES AND WAGES	2,273,718	2,218,399	2,214,776	2,172,205	2,082,189	2,270,232	1,988,565	2,256,620					17,476,703	2,184,588
EMPLOYEE BENEFITS	250,412	210,187	256,277	315,052	345,217	223,760	296,777	206,578					2,104,260	263,032
PAYROLL TAXES	166,042	158,892	165,707	156,844	166,031	189,047	162,898	179,602					1,345,062	168,133
TOTAL SALARIES & WAGES	2,690,171	2,587,477	2,636,760	2,644,101	2,593,437	2,683,039	2,448,240	2,642,800					20,926,024	2,615,753
PROFESSIONAL FEES - MEDICAL	95,375	90,311	101,363	102,751	107,070	117,257	131,894	121,073					867,093	108,387
PROFESSIONAL FEES - NON-MEDICAL	35,000	45,325	48,499	(16,094)	24,872	21,672	13,154	23,493					195,921	24,490
PROFESSIONAL FEES - BANKRU	414,427	497,800	315,508	258,574	198,891	116,213	119,988	44,554					1,965,955	245,744
REGISTRY	90,646	65,824	73,449	74,993	194,873	291,436	404,158	317,663					1,473,044	184,130
MEDICAL SUPPLIES	767,650	878,510	910,415	770,268	680,119	1,053,844	941,303	839,396					6,841,505	855,188
LAUNDRY & LINEN	24,500	22,431	18,734	23,012	19,019	20,178	24,840	19,798					172,513	21,564
APPAREL	11,155	10,738	10,299	8,166	9,413	10,222	11,646	11,999					83,640	10,455
OFFICE SUPPLIES	7,390	10,431	15,263	9,658	8,429	10,241	16,622	7,346					85,380	10,672
MINOR EQUIPMENT	5,091	17,866	15,414	2,527	16,143	17,191	17,278	16,600					108,109	13,514
NON MEDICAL SUPPLIES	133,241	91,036	115,227	90,820	101,908	141,822	114,556	113,988					902,597	112,825
PURCHASED SERVICES (MEDICAL)	32,562	46,686	48,171	35,955	45,665	69,620	78,590	81,410					438,659	54,832
PURCHASED SERVICES (NON MEDICAL)	156,217	134,845	181,772	198,670	294,892	235,814	259,426	212,998					1,674,634	209,329
LEGAL FEES	3,343	476	859	-	3,158	6,073	2,211	6,836					22,957	2,870
ADVERTISING	-	-	-	-	-	-	-	-					-	-
REPAIRS & MAINTENANCE	153,508	124,959	129,399	174,986	198,649	118,534	298,525	250,020					1,448,580	181,072
RENTS & LEASES	63,528	46,350	55,424	58,941	52,115	52,574	64,855	60,272					454,060	56,757
UTILITIES & TELEPHONE	68,955	69,259	62,997	63,490	70,477	62,349	56,835	59,440					513,802	64,225
INSURANCE	117,074	116,561	112,517	115,574	113,214	113,857	115,574	115,574					919,944	114,993
LICENSES & TAXES	7,712	5,412	10,124	6,454	10,733	7,503	7,443	5,485					60,866	7,608
INTEREST EXPENSE	64,970	64,469	64,416	64,707	62,154	63,640	64,299	58,948					507,503	63,438
DUES & SUBSCRIPTIONS	20,412	7,990	18,524	19,737	15,183	15,876	14,738	23,498					135,957	16,995
TRAINING & EDUCATION	699	1,081	31	3,882	3,359	945	1,115	277					11,389	1,424
TRAVEL AND ENTERTAINMENT	5,137	6,046	5,384	11,552	4,926	4,943	4,943	6,362					49,011	6,126
RECRUITING EXPENSES	-	-	567	-	36,000	37,626	9,032	2,710					85,935	10,742
MANAGEMENT FEES	-	-	-	-	-	-	-	-					-	-
OTHER OPERATING EXPENSES	42,955	61,890	60,805	34,635	19,218	55,556	22,822	24,739					322,610	40,326
BAD DEBTS ADJUSTMENTS	1,688,030	772,264	1,030,050	1,111,218	1,019,143	1,241,333	1,486,728	1,005,745					9,354,512	1,169,314
TOTAL OPERATING EXPENSES	6,659,751	5,776,027	6,041,971	5,868,577	5,903,060	6,569,075	6,730,816	6,072,924					49,622,199	6,202,775
NET OPERATING INCOME	(859,396)	(861,941)	(317,946)	(779,007)	(951,174)	68,350	946,334	(509,653)					(3,264,433)	(408,054)
NON-OPERATING EXPENSES														
AMORTIZATION OF BONDS	-	-	-	-	-	-	-	-					-	-
DEPRECIATION	196,724	196,592	197,467	196,989	196,914	197,005	196,708	196,605					1,575,005	196,876
SETTLEMENTS	-	-	-	-	-	-	-	-					-	-
TOTAL NON-OPERATING EXPENSES	196,724	196,592	197,467	196,989	196,914	197,005	196,708	196,605					1,575,005	196,876
Net Income (Loss)	(1,056,120)	(1,058,533)	(515,413)	(975,996)	(1,148,087)	(128,655)	749,625	(706,258)					(4,839,438)	(604,930)

Victor Valley Community Hospital
 "Drill Down" Income Statement
 May 2012

Current Month		
Hospital May-12 Actual	Bankruptcy & QA Fees May-12 Actual	Total Hospital May-12 Actual
45		45
1,402		1,402
2,539		2,539
2,749		2,749
854		854
11,502,774		11,502,774
5,924,142		5,924,142
3,405,454		3,405,454
20,832,370		20,832,370
8,417,020		8,417,020
4,547,711		4,547,711
2,614,221		2,614,221
15,578,952		15,578,952
15,404		15,404
323,190		323,190
(31,197)		(31,197)
307,397		307,397
5,560,816		5,560,816
2,256,620		2,256,620
386,180		386,180
2,642,800		2,642,800
121,073		121,073
23,493		23,493
	44,554	44,554
317,663		317,663
839,396		839,396
19,798		19,798
11,999		11,999
7,346		7,346
16,600		16,600
113,988		113,988
81,410		81,410
212,998		212,998
6,836		6,836
250,020		250,020
60,272		60,272
59,440		59,440
115,574		115,574
5,485		5,485
58,848		58,848
23,498		23,498
277		277
6,362		6,362
2,710		2,710
24,739		24,739
1,005,745		1,005,745
3,385,570	44,554	3,430,124
6,028,370	44,554	6,072,924
(467,554)	(44,554)	(509,653)
196,605		196,605
196,605		196,605
(661,705)	(44,554)	(706,258)

ADC
 Patient Days
 Adjusted Patient Days
 ER Visits
 OP Visits

Total Inpatient Revenue
 Total ER Revenue
 Total Outpatient Revenue
 Total Revenue

CONT ALLOW & BAD DEBTS
 Total Inpatient Allowance
 Total ER Allowance
 Total Outpatient Allowance
 Total QA Fees
 Total Contractuals

Cafeteria Revenue
 Capitation Revenue
 DSH Money
 Contribution
 Other Misc Revenue
 Total Other Revenue

Net Revenue

EXPENSES:
 Salary & Wages
 Benefits
 Total Salaries, Wages & Benefits

Professional Fees - Medical
 Professional Fees - Non Medical
 Professional Fees - Bankruptcy
 Registry
 Medical Supplies
 Laundry, Linen
 Apparel
 Office Supplies
 Minor Equipment
 Non Medical Supplies
 Purchased Services - Medical
 Purchased Services - Non Medical
 Legal Fees
 Advertising
 Repairs & Maintenance
 Rents & Leases
 Utilities & Telephone
 Insurances
 Licenses & Taxes
 Interest Expense
 Dues & Subscriptions
 Training and Education
 Travel and Entertainment
 Recruiting Expense
 Management Fees
 Other Operating Expenses
 Bad Debts Adjustments
 Total Non-Salary Operating Expenses

Total Operating Expenses

Gain (Loss) from Operations
 Other Non-Operating Expense
 Amortization of Bonds
 Depreciation
 Settlements
 Total Non-Operating Expenses

Net Income /(Loss)

Fiscal Year to Date		
Hospital YTD May-12 Actual	Bankruptcy & QA Fees YTD May-12 Actual	Total Hospital YTD May-12 Actual
48.0		48.0
11,698.0		11,698
20,211.7		20,212
21,144.0		21,144
7,741.0		7,741
95,196,017		95,196,017
42,047,221		42,047,221
27,223,839		27,223,839
164,467,077		164,467,077
70,979,640		70,979,640
31,346,806		31,346,806
20,283,774		20,283,774
	(1,949,248)	(1,949,248)
122,610,220	(1,949,248)	120,660,971
115,447		115,447
16,443		16,443
2,116,377		2,116,377
303,393		303,393
2,551,661		2,551,661
44,408,518	1,949,248	46,357,767
17,476,703		17,476,703
3,449,321		3,449,321
20,926,024		20,926,024
867,093		867,093
195,921		195,921
	1,965,955	1,965,955
1,473,044		1,473,044
6,841,505		6,841,505
172,513		172,513
83,640		83,640
85,380		85,380
108,109		108,109
902,597		902,597
438,659		438,659
1,674,634		1,674,634
22,957		22,957
1,448,580		1,448,580
454,060		454,060
513,802		513,802
919,944		919,944
60,866		60,866
507,503		507,503
135,957		135,957
11,389		11,389
49,011		49,011
85,935		85,935
322,610		322,610
9,354,512		9,354,512
26,730,220	1,965,955	28,696,175
47,656,245	1,965,955	49,622,199
(3,247,726)	(16,706)	(3,264,433)
1,575,005		1,575,005
1,575,005		1,575,005
(4,822,731)	(16,706)	(4,839,438)

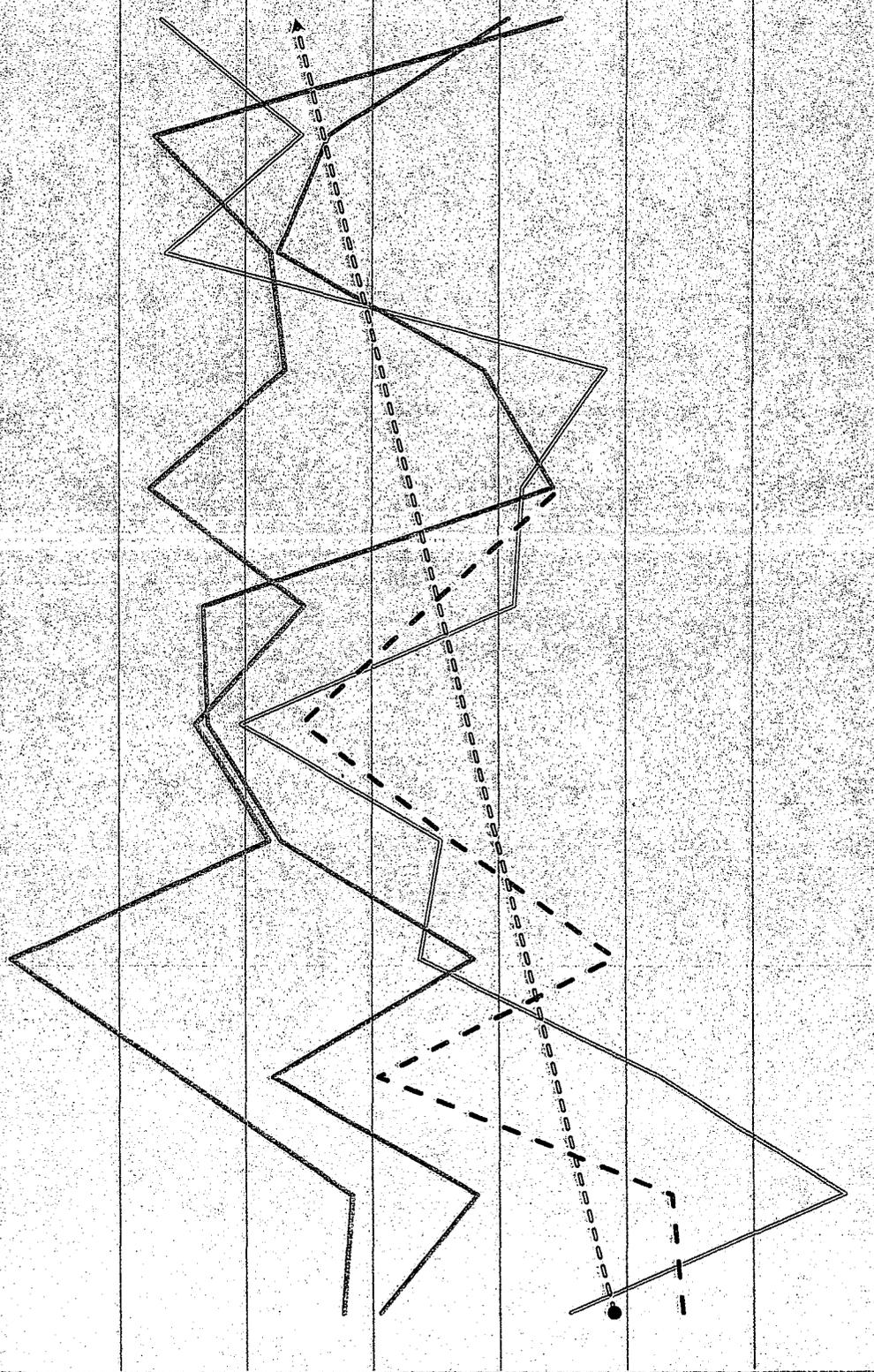
Victor Valley Community Hospital
 "Drill Down" Balance Sheet
 May 2012

	Hospital Only	Bankruptcy & QA Fees Exceptional Items	Total Hospital
ASSETS			
CASH			
OPERATING FUNDS	2,254,822		2,254,822
SELF FUNDED INS FUND	-		-
CAPITATION FUNDS	495,936		495,936
MARKETABLE SECURITIES	-		-
FOUNDATION CASH	-		-
TOTAL CASH	<u>2,750,758</u>		<u>2,750,758</u>
ACCOUNTS RECEIVABLE - PATIENTS	39,659,995		39,659,995
ALLOWANCE FOR DOUBTFUL ACCOUNTS	(6,846,699)		(6,846,699)
ALLOWANCE FOR CONTRACTUALS	(27,526,037)		(27,526,037)
NET PATIENT RECEIVABLE	<u>5,287,259</u>		<u>5,287,259</u>
OTHER RECEIVABLES	1,362,404		1,362,404
ALLOW FOR DOUBTFUL ACCOUNTS - OTHER REC'BLE	(514,710)		(514,710)
INVENTORIES	1,344,681		1,344,681
PREPAID & OTHER	2,638,170		2,638,170
TOTAL CURRENT ASSETS	<u>12,868,563</u>		<u>12,868,563</u>
ASSETS HELD IN TRUST	-	5,195,279	5,195,279
FIXED ASSETS & MAJOR MOVABLES			
LAND	374,386		374,386
LAND IMPROVEMENTS	1,223,256		1,223,256
HOSPITAL BUILDINGS	24,935,810		24,935,810
FIXED EQUIPMENT	2,893,470		2,893,470
MAJOR MOVABLE EQUIPMENT	23,791,351		23,791,351
MINOR EQUIPMENT	-		-
CONSTRUCTION IN PROGRESS	1,459,003		1,459,003
TOTAL PROPERTY, PLANT & EQUIP	<u>54,677,275</u>		<u>54,677,275</u>
LESS: ACCUMULATED DEPRECIATION	<u>(38,568,568)</u>		<u>(38,568,568)</u>
NET PROPERTY, PLANT & EQUIP	<u>16,108,708</u>		<u>16,108,708</u>
INTANGIBLES & OTHER	-		-
TOTAL ASSETS	<u>28,977,270</u>	<u>5,195,279</u>	<u>34,172,549</u>
LIABILITIES AND FUND BALANCE			
CURRENT PORTION OF LEASES	13,783		13,783
CURRENT PORTION OF LONG-TERM DEBT	2,498,870		2,498,870
ACCRUED INTEREST PAYABLE	61,287		61,287
NOTES PAYABLE - OTHER	-		-
CURRENT PORTION OF BONDS PAYABLE	-		-
ACCOUNTS PAYABLE - PRE-PETITION	10,666,920		10,666,920
ACCOUNTS PAYABLE - POST-PETITION	1,209,424		1,209,424
ACCOUNTS PAYABLE - ACCRUALS	1,883,640		1,883,640
ACCRUED PAYROLL, VAC., HOL., SICK	1,822,276		1,822,276
PAYROLL TAXES PAYABLE	(1,016)		(1,016)
IBNR EMPLOYEE HEALTH INS	-		-
OTHER PAYROLL LIABILITIES	25,120		25,120
DUE TO/(FROM) VVCH FOUNDATION	794,625		794,625
OTHER CURRENT LIABILITIES	12,451		12,451
SETTLEMENT PAYABLE	70,000		70,000
IBNR	260,688		260,688
CURRENT LIABILITIES	<u>19,318,069</u>		<u>19,318,069</u>
LONG TERM LIABILITIES			
BONDS PAYABLE (NET OF UNAMORT.)	-		-
LOAN PAYABLE	2,907,125		2,907,125
DUE TO THIRD PARTY PAYORS-MEDCAL	4,780,167		4,780,167
DIP FINANCING	2,675,000		2,675,000
CMS PAY-BACK LIABILITY	1,900,000		1,900,000
CAPITALIZED LEASE OBLIGATION	19,526		19,526
NOTES PAYABLE LT - PHM	6,700,000		6,700,000
DEPOSIT PAYABLE - KPC	-	680,659	680,659
DEPOSIT PAYABLE - Prime Healthcare	-	4,319,341	4,319,341
DEFERRED REVENUE (CHOICE)	370,000		370,000
TOTAL OTHER LIABILITIES	<u>19,351,818</u>	<u>5,000,000</u>	<u>24,351,818</u>
TOTAL LIABILITIES & DEFERRED CREDITS	<u>38,669,887</u>	<u>5,000,000</u>	<u>43,669,887</u>
FUND BAL - PRIOR YR	(4,657,903)		(4,657,903)
FUND BAL - CURR YR	(5,034,714)	195,279	(4,839,435)
TOTAL FUND BALANCE	<u>(9,692,617)</u>	<u>195,279</u>	<u>(9,497,338)</u>
TOTAL LIABILITIES & FUND BAL	<u>28,977,270</u>	<u>5,195,279</u>	<u>34,172,549</u>

Inpatient Revenue Trend - FY2009 vs. FY2012

Thousands

16,000
15,000
14,000
13,000
12,000
11,000
10,000
9,000

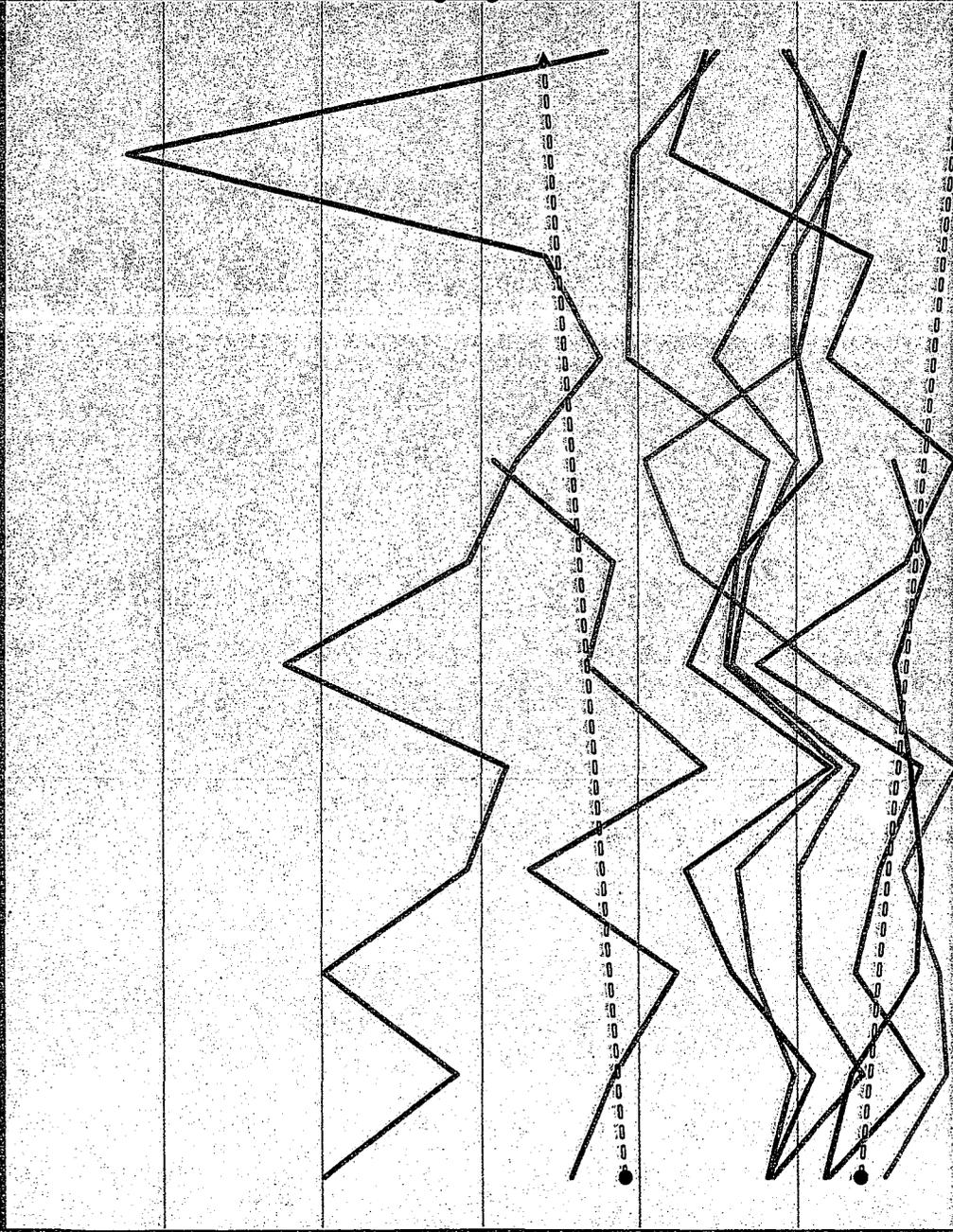


Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep

Inpatient Rev - 2009 Inpatient Rev - 2010 Inpatient Rev - 2011 Inpatient Rev - 2012

Outpatient & Emergency Revenue Trend - FY2009 vs. FY2012

Thousands
9,000



8,000

7,000

6,000

5,000

4,000

3,000

Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep

EmerRev-2009

EmerRev-2010

EmerRev-2011

EmerRev-2012

OutpatRev-2009

OutpatRev-2010

OutpatRev-2011

OutpatRev-2012

OutpatRev-2013

EmerRev-2013

OutpatRev-2013

Audited Financial Statements

VICTOR VALLEY
COMMUNITY HOSPITAL

September 30, 2011 and 2010

TCA Partners, LLP
Certified Public Accountants

VICTOR VALLEY COMMUNITY HOSPITAL

Audited Financial Statements

September 30, 2011 and 2010

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Balance Sheets 2
Statements of Operations and Changes in Net Assets 3
Statements of Cash Flows 4
Notes to Financial Statements..... 5

TCA Partners, LLP

A Certified Public Accountancy Limited Liability Partnership

1111 East Herndon Avenue, Suite 211, Fresno, CA 93720

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Report of Independent Auditors

To the Board of Directors
Victor Valley Community Hospital
Victorville, California

We have audited the accompanying balance sheets of Victor Valley Community Hospital (the Hospital) as of September 30, 2011 and 2010, and the related statements of operations, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform audits of the Hospital's internal controls over financial reporting. Our audits included consideration of internal controls over financial reporting as a basis of designing 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 controls over financial reporting. Accordingly, we express no such opinion. 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 audit provide a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note 12 to the financial statements, the Hospital has experienced recurring cash shortages and was not able to meet ongoing obligations from operations and certain debt instruments. The Hospital filed for protection under the United States Bankruptcy Law in September 2010. These conditions raise substantial doubt about the Hospital's ability to continue as a going concern. Management's plans regarding these matters also are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Victor Valley Community Hospital at September 30, 2011 and 2010, 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.

TCA Partners, LLP

January 13, 2012

VICTOR VALLEY COMMUNITY HOSPITAL

Balance Sheets

	September 30,	
	<u>2011</u>	<u>2010</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,033,287	\$ 822,838
Patient accounts receivable, net of allowances	4,978,848	4,866,783
Other receivables	1,021,784	2,539,935
Asset limited as to use, current	5,870,214	1,615,498
Supplies	1,330,351	1,327,052
Prepaid expenses and other current assets	<u>2,859,299</u>	<u>1,043,545</u>
Total current assets	21,093,783	12,215,651
Assets limited as to use	-0-	625,675
Property and equipment, net	16,982,372	17,582,503
Other assets	<u>-0-</u>	<u>35,907</u>
Total assets	<u>\$ 38,076,155</u>	<u>\$ 30,459,736</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 17,831,957	\$ 10,209,172
Accrued payroll and related liabilities	1,418,749	2,527,087
Estimated third-party payor settlements, current	3,620,621	5,205,350
Current maturities of long-term debt	6,924,846	2,902,030
Other current liabilities	<u>260,688</u>	<u>260,688</u>
Total current liabilities	30,056,861	21,104,327
Long-term debt, less current maturities	9,415,919	16,838,475
Estimated third-party payor settlements	1,900,000	-0-
Deferred revenue	<u>370,000</u>	<u>370,000</u>
Total liabilities	41,742,780	38,312,802
Net assets:		
Unrestricted net accumulated deficit	(4,271,296)	(8,451,974)
Temporarily restricted net assets	<u>604,671</u>	<u>598,908</u>
Total net accumulated deficit	<u>3,666,625</u>	<u>7,853,066</u>
Total liabilities and net accumulated deficit	<u>\$ 38,076,155</u>	<u>\$ 30,459,736</u>

See accompanying notes to the financial statements

VICTOR VALLEY COMMUNITY HOSPITAL

Statements of Operations and Changes in Net Assets

	Year Ended September 30,	
	<u>2011</u>	<u>2010</u>
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 86,404,344	\$ 60,486,136
Other revenues:		
Capitation revenue	-0-	1,308,265
Grants and Contributions	17,870	707,672
Other	<u>405,844</u>	<u>1,298,670</u>
Total revenues, gains and other support	86,828,058	63,800,743
Expenses:		
Salaries and wages	27,658,932	28,189,838
Employee benefits	5,887,309	5,158,004
Professional fees	8,333,548	2,994,015
Purchased services	2,921,821	2,643,672
Supplies	12,705,814	11,766,416
Repairs and maintenance	1,953,405	1,588,202
Utilities	875,669	1,022,716
Lease and rental	768,909	779,441
Depreciation and amortization	2,381,942	1,904,095
Interest	544,132	1,253,854
Bad debts	15,224,000	7,771,334
Insurance	1,388,556	1,371,153
Other	<u>1,731,347</u>	<u>1,966,469</u>
Total expenses	<u>82,375,384</u>	<u>68,409,209</u>
Income (loss) from operations	4,452,674	(4,608,466)
Extraordinary expense	<u>200,315</u>	<u>255,620</u>
Net change in unrestricted net assets	4,252,359	(4,864,086)
Net change in temporarily restricted net assets	<u>(65,918)</u>	<u>488,757</u>
Net change in total net assets	4,186,441	(4,375,329)
Net accumulated deficit, beginning of year	<u>(7,853,066)</u>	<u>(3,477,737)</u>
Net accumulated deficit, end of year	<u>\$ (3,666,625)</u>	<u>\$ (7,853,066)</u>

See accompanying notes to the financial statements

VICTOR VALLEY COMMUNITY HOSPITAL

Statements of Cash Flows

	Year Ended September 30	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net change in net assets	\$ 4,186,441	\$ (4,375,329)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,381,942	1,904,095
Changes in operating assets and liabilities:		
Patient accounts receivable	(112,065)	2,896,577
Other accounts receivable	1,518,151	(472,459)
Supplies	(3,299)	640,406
Prepaid expenses and other current assets	(1,815,754)	(433,542)
Estimated third-party payor settlements	315,271	2,871,324
Accounts payable and accrued expenses	7,622,785	89,617
Accrued payroll and related liabilities	(1,108,338)	(154,399)
Other liabilities	-0-	(1,961,938)
Net cash provided by operating activities	<u>12,985,134</u>	<u>1,004,352</u>
Cash flows from investing activities:		
Purchases of property and equipment	(1,742,916)	(4,323,591)
Net change in assets limited as to use	<u>(3,629,041)</u>	<u>2,318,779</u>
Net cash used in investing activities	(5,371,957)	(2,004,812)
Cash flows from financing activities:		
Proceeds from debt borrowings	20,000	2,048,578
Repayment of debt borrowings	<u>(3,422,728)</u>	<u>(1,237,515)</u>
Net cash provided by (used in) financing activities	<u>(3,402,728)</u>	<u>811,063</u>
Net increase (decrease) in cash and cash equivalents	4,210,449	(189,397)
Cash and cash equivalents, beginning of year	<u>822,838</u>	<u>1,012,235</u>
Cash and cash equivalents, end of year	<u>\$ 5,033,287</u>	<u>\$ 822,838</u>
Supplemental disclosure of cash flows information:		
Cash paid for interest	<u>\$ 1,214,367</u>	<u>\$ 747,318</u>

See accompanying notes to the financial statements

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization - Victor Valley Community Hospital (the Hospital), located in Victorville, California, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient, emergency care and post-acute services.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include certain investments in certificates of deposit, U.S. Treasury obligations and savings accounts with original maturities of generally one year or less.

Investments - Investments in equity securities with readily determined fair values and all investments in debt securities are measured at fair value on the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the statement of operations unless the income or loss is restricted by the donor or law. Unrealized gains and losses on investments are excluded from the statement of operations unless the investments are trading securities.

Assets limited as to use - Assets limited as to use primarily include assets held by trustees under indenture agreements, assets set aside as reserves for a capitation/risk pool program, assets held in escrow accounts and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion, subsequently use for other purposes. Assets whose use is limited may also consist from time to time of donor restricted cash and cash equivalents.

Property and equipment - Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are included in the statement of operations, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other asset that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Net patient service revenue - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursement 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Charity care - The Hospital provides care to patients who meet certain criterion under its charity care policy. The Hospital provides medical care to patients regardless of their ability to pay. The evaluation of the necessity for medical treatment of any patient is based upon clinical judgment, irrespective of the financial status of the patient. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenue. See note 7.

Donor-restricted gifts - 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 reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulation 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 reported as unrestricted contributions in the accompanying financial statements.

Income taxes - The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Sec. 501(c)(3) of the Internal Revenue Code.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2011

NOTE 2 - NET PATIENT SERVICE REVENUE

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary accordingly to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient acute services, certain outpatient services, post-acute care services and defined capital costs related to Medicare beneficiaries are paid based on predetermined reimbursement methodologies. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. As of September 30, 2011 the fiscal intermediary has final settled cost reports through September 30, 2009.

Medi-Cal - Inpatient and outpatient services are reimbursed based on the Hospital's allowable costs. As of September 30, 2011 the fiscal intermediary (California State Department of Health Services) has final settled cost reports through September 30, 2009.

Other Third-Party Payors - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

During the course of a recent audit by the Hospital's Medicare fiscal intermediary it was determined that incorrect rates were being used by the Hospital in certain Medicare Disproportionate Share payment calculations and that there was a discrepancy in the licensing of certain Hospital facilities. Based on the Medicare fiscal intermediary's findings, Medicare made a claim for repayment of \$7,092,508. The claim covers fiscal years ending September 30, 2006 to September 30, 2010. The claim was recorded at September 30, 2010 as a component of estimated third-party payor settlements and as a deduction from patient service revenue. A payment plan was agreed upon and at September 30, 2011 the remaining balance on the claim is \$5,692,508. Remaining payments are scheduled through 2013.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2011

NOTE 3 - ASSETS LIMITED AS TO USE

The composition of assets limited as to use at September 30, 2011 and 2010, is set forth in the following table.

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents:		
Held as reserve for risk pool	\$ 479,521	\$ 490,274
Held by trustee under indenture agreements	-0-	1,349,098
Held in escrow account	5,182,609	-0-
Board designated	-0-	12,551
Victor Valley Community Hospital Foundation trust account	<u>208,084</u>	<u>389,250</u>
	5,870,214	2,241,173
Less amounts required to meet current obligations	<u>(5,870,214)</u>	<u>(1,615,498)</u>
	<u>\$ -0-</u>	<u>\$ 625,675</u>

NOTE 4 - PROPERTY AND EQUIPMENT

The components and amounts which comprise property and equipment as of September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 1,597,642	\$ 1,597,642
Buildings and improvements	24,881,609	24,666,813
Equipment	26,329,445	25,459,667
Construction in progress	<u>1,222,080</u>	<u>562,737</u>
	54,030,776	52,286,859
Less: accumulated depreciation	<u>(37,048,404)</u>	<u>(34,704,356)</u>
	<u>\$ 16,982,372</u>	<u>\$ 17,582,503</u>

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2011

NOTE 5 - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable from patients, federal, state and third-party payors at September 30, 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	32%	30%
Medi-Cal	36%	33%
Insurance and other third-party payors	23%	23%
Private pay	<u>9%</u>	<u>14%</u>
Total	<u>100%</u>	<u>100%</u>

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following:

	September 30,	
	<u>2011</u>	<u>2010</u>
California Health facilities Financing Authority Insured Hospital Refunding Revenue Bonds, Series 2000A, original amount of \$8,470,000 of term bonds maturing annually on July 1 through 2012, interest payable semi-annually on January 1, and July 1, at rates varying from 4.60% to 5.375%, secured by property and receivables.	\$ -0-	\$ 1,790,000
Note payable to a bank, bearing interest at the bank's prime rate minus 2.0% (5.75% at September 30, 2011), payable in monthly principal payments of \$5,000 plus interest, maturing August 2016.	4,260,341	4,438,782
Note payable to a management services company (see note 9), bearing interest at the prime rate plus 2% (5.25% at September 30, 2011), interest payable monthly, maturing February 2012, secured by property.	6,000,000	6,000,000
Note payable to the California State Department of Health Services, due in monthly installments of \$27,577, with interest at 5.65%, final payment due in May 2044.	5,267,926	5,583,774
Note payable to a medical group, bearing interest at 5%, interest payable at maturity, maturing December 2011, secured by certain receivables.	700,000	700,000
Note payable to a healthcare services foundation (DIP Loan), bearing interest at 1%, interest payable at maturity, maturing December 2011, secured by certain receivables.	-0-	1,100,000

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2011

NOTE 6 – LONG-TERM DEBT (continued)

Note payable to two individuals as part of a legal settlement, due in monthly installments of \$20,000, with no provision for interest, final payment due in December 2011.

70,000 50,000

Minor notes payable and capital leases, interest charged at various rates from 8.7% to 13.6%, with maturities at various times through 2015.

42,498 88,425

Total debt borrowings

16,340,765 19,750,981

Less unamortized bond discount

-0- (10,476)

Less current portion

(6,924,846) (2,902,030)

\$ 9,415,919 \$ 16,838,475

Future principal maturities for debt borrowings for the succeeding years are: \$6,924,846 in 2012; \$157,663 in 2013; \$160,643 in 2014; \$151,161 in 2015; \$153,350 in 2016; and \$8,793,102 thereafter.

In May 2000, the Hospital issued \$8,470,000 of Series 2000A Health Facility Revenue Bonds. The proceeds of the Series 2000A Bonds were used to refund the Series 1984A Health Facility Revenue Bonds outstanding at the time, fund a Bond Reserve and Insurance Fund pursuant to the bond indenture agreement and pay certain bond issuance costs. In accordance with the terms of the revenue bond agreement, the Hospital established fund accounts, which were limited as to use for the repayment of the bonds, and were maintained by a trustee. The funds held under the indenture agreement consisted of cash and cash equivalents and were included in the accompanying balance sheet as of September 30, 2010 as "assets limited as to use" in the amount of \$1,349,098. The bonds carried interest rates that ranged from 4.60% to 5.375%. The Hospital's property, equipment and gross revenues collateralized the bonds. The Hospital's bond agreement contained various restrictive covenants that, among other things, required the maintenance of certain levels of earnings and provided for restrictions on fixed asset additions and additional indebtedness. The Series 200A Health Facility Revenue Bonds were defeased in 2011 as part of the Hospital's ongoing refinancing and restructuring plan in connection with its bankruptcy proceedings.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2011

NOTE 7 – CHARITY CARE

The Hospital has a policy to treat patients regardless of their ability to pay. A patient is classified as a charity patient if certain criterions of the charity care policy are met. Essentially, these policies define charity services as those services for which no payment is anticipated.

The Hospital also provides programs and activities that contribute to charity care, care of the poor and for community benefit. These programs and activities serve a majority of persons who are beneficiaries of MediCal, other state and county programs, or are medically indigent.

The estimated health care services provided by the Hospital to the poor and underserved community are summarized as follows:

	<u>For the year ended September 30,</u>	
	<u>2011</u>	<u>2010</u>
Traditional charity care and uninsured patients	\$ 5,181,607	\$ 3,877,423
Unpaid cost of public programs	<u>8,578,394</u>	<u>10,883,310</u>
Total charity and community benefits	<u>\$ 13,760,001</u>	<u>\$ 14,760,733</u>

Traditional Charity Care and Uninsured Patients – includes the cost of services provided to persons who are unable to pay, in full or in part, for their healthcare services and/or who are uninsured or underinsured.

Unpaid Cost of Public Programs – also benefits the poor, but is listed separately. This amount represents the unpaid cost of services provided to patients in the MediCal program and enrolled in HMO and PPO plans under contract with the MediCal program.

The Hospital also incurred costs in excess of payments received for services provided to Medicare beneficiaries during the years ended September 30, 2011 and 2010 in the amount of \$24,426,906 and \$23,702,869 respectively.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2011

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Operating leases - The Hospital leases various equipment and facilities under operating leases expiring at various dates. Lease and rental expense under such agreements was \$768,909 and \$779,441 for the years ended September 30, 2011 and 2010, respectively. Future minimum lease payments under operating leases as of September 30, 2011 that have initial or remaining lease terms in excess of one year are not considered significant.

Medical Malpractice Insurance - The Hospital purchases professional and general liability insurance to cover medical malpractice claims. The Hospital maintains its medical malpractice insurance coverage on a claims-made pooled and participating self-insurance program for hospitals.

Litigation - The Hospital is party to legal proceedings and claims that arise during the ordinary course of business. In the opinion of management, the ultimate outcome of the litigation will not have a material, adverse effect on the Hospital's financial statements.

NOTE 9 - MANAGEMENT SERVICES AGREEMENT

In February 2005, the Hospital entered into an Agreement for Management Services (the Agreement) with Physicians Hospital Management, LLC (PHM). The agreement gives PHM the authority and responsibility to conduct, supervise and manage the day-to-day operations of the Hospital. The Agreement was originally for three years and had been extended through February 2011. The Agreement was terminated by mutual written agreement of the Hospital and PHM.

As of September 30, 2011 and 2010, the Hospital had a \$6,000,000 note payable to PHM, which is reflected as long-term debt in the accompanying balance sheets (see Note 6). The note payable is secured pursuant to a third deed of trust on Hospital property. The note bears interest at prime rate plus 2% (5.25% at September 30, 2011). Interest only is due and payable monthly, with principal and any accrued interest payable due in full on February 1, 2012.

NOTE 10 - VICTOR VALLEY COMMUNITY HOSPITAL FOUNDATION

During the year ended September 30, 2002, the Hospital established the Victor Valley Community Hospital Foundation (the Foundation). The Foundation's primary purpose is the procurement and extension of financial aid toward the operation, maintenance, and modernization of the Hospital. During the years ended September 30, 2011 and 2010, the Foundation has been accounted for as a component unit of the Hospital. The Foundation is not separately incorporated. The only significant assets of the Foundation are cash and cash equivalents (deposited in a designated bank account separate from other Hospital monies). The Foundation's cash is included in assets limited as to use in the accompanying balance sheets (see Note 3). The Foundation has its own officers, who are authorized signers on the bank account. It is anticipated that Foundation funds currently held or received in the future will be used for capital improvements, operations, or for other purposes on behalf of the Hospital. The Foundation made cash contributions of approximately \$376,000 and \$223,000 during the fiscal years ended September 30, 2011 and 2010, respectively.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2011

NOTE 11 - PENSION PLAN

The Hospital has a defined contribution pension plan, the Victor Valley Community Hospital 401(k) Plan. The plan was established in January 2005 and is available to substantially all employees meeting certain service requirements. The Hospital may make discretionary contributions to the plan as approved by the board of directors. During the years ended September 30, 2011 and 2010 the Hospital contributed approximately \$70,000 and \$74,000, respectively, to the plan on behalf of participants.

NOTE 12 – GOING CONCERN UNCERTAINTY

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern, which contemplates realization of assets and satisfaction of liabilities in the normal course of business. The Hospital has experienced recurring cash shortages and was not able to meet ongoing obligations from operations and was in default on certain covenants of the loan agreements on the California Health Facilities Financing Authority Insured Hospital Refunding Revenue Bonds, Series 2000A. The Hospital filed for protection under United States Bankruptcy Law in September 2010. The Hospital was subsequently offered for sale and is in the process of evaluating sales contracts with qualified buyers, however there can be no assurance that a sale will be completed. These matters raise substantial doubt about the Hospital's ability to continue as a going concern. The September 30, 2011 financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 13 – Disclosures About Fair Value of Assets

The Hospital adopted Statement of Financial Accounting standards No. 157, *Fair Value Measurements* (FAS 157) as of and for the year ended December 31, 2010. FAS 157 fair value establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FAS 157 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.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2011

Note 13 – Disclosures About Fair Value of Assets (continued)

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;

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; 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;

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

The Hospital has no investments or other items measured at fair value on a recurring basis and recognized in the accompanying balance sheets.

TCA PARTNERS, LLP
Certified Public Accountants

Audited Financial Statements

VICTOR VALLEY COMMUNITY HOSPITAL

September 30, 2010

VICTOR VALLEY COMMUNITY HOSPITAL

Audited Financial Statements

September 30, 2010

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TCA Partners, LLP

A Certified Public Accountancy Limited Liability Partnership

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Voice (559) 431-7708 Fax (559) 431-7685

Report of Independent Auditors

To the Board of Directors
Victor Valley Community Hospital
Victorville, California

We have audited the accompanying balance sheets of Victor Valley Community Hospital (the Hospital) as of September 30, 2010 and 2009, and the related statements of operations, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provide a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming that the Hospital will continue as a going concern. As discussed in Note 12 to the financial statements, the Hospital has experienced recurring cash shortages and was not able to meet ongoing obligations from operations and is in default on certain covenants of the loan agreements on the California Health facilities Financing Authority Insured Hospital Refunding Revenue Bonds, Series 2000A. The Hospital filed for protection under the United States Bankruptcy Law in September 2010. These conditions raise substantial doubt about the Hospital's ability to continue as a going concern. Management's plans regarding these matters also are described in Note 12. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Victor Valley Community Hospital at September 30, 2010 and 2009, 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.

TCA Partners, LLP

June 16, 2011

VICTOR VALLEY COMMUNITY HOSPITAL

Balance Sheets

	September 30,	
	<u>2010</u>	<u>2009</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 822,838	\$ 1,012,235
Patient accounts receivable, net of allowances	4,866,783	7,763,360
Other receivables	2,539,935	2,067,476
Asset limited as to use, current	1,615,498	2,213,211
Supplies	1,327,052	1,967,458
Prepaid expenses and other current assets	<u>1,043,545</u>	<u>610,003</u>
Total current assets	12,215,651	15,633,743
Assets limited as to use	625,675	2,346,741
Property and equipment, net	17,582,503	15,136,512
Other assets	<u>35,907</u>	<u>56,427</u>
Total assets	<u>\$ 30,459,736</u>	<u>\$ 33,173,423</u>
 Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 10,209,172	\$ 10,119,554
Accrued payroll and related liabilities	2,527,087	2,681,486
Estimated third-party payor settlements	5,205,350	2,334,026
Current maturities of long-term debt	2,902,030	1,226,839
Other current liabilities	<u>260,688</u>	<u>859,193</u>
Total current liabilities	21,104,327	17,221,099
Long-term debt, less current maturities	16,838,475	17,696,628
Deferred revenue	<u>370,000</u>	<u>1,733,433</u>
Total liabilities	38,312,802	36,651,160
Net assets:		
Unrestricted net accumulated deficit	(8,451,974)	(3,587,888)
Temporarily restricted net assets	<u>598,908</u>	<u>110,151</u>
Total net accumulated deficit	<u>7,853,066</u>	<u>3,477,737</u>
Total liabilities and net accumulated deficit	<u>\$ 30,459,736</u>	<u>\$ 33,173,423</u>

See accompanying notes to the financial statements

VICTOR VALLEY COMMUNITY HOSPITAL

Statements of Operations and Changes in Net Assets

	Year Ended September 30,	
	<u>2010</u>	<u>2009</u>
Unrestricted revenues, gains and other support:		
Net patient service revenue	\$ 60,486,136	\$ 62,768,120
Other revenues:		
Capitation revenue	1,308,265	883,827
Grants and Contributions	707,672	288,255
Other	<u>1,298,670</u>	<u>692,204</u>
Total revenues, gains and other support	63,800,743	64,632,406
Expenses:		
Salaries and wages	28,189,838	25,638,793
Employee benefits	5,158,004	5,153,670
Professional fees	2,994,015	3,048,218
Purchased services	2,643,672	1,642,200
Supplies	11,766,416	11,887,931
Repairs and maintenance	1,588,202	1,311,364
Utilities	1,022,716	1,022,020
Lease and rental	779,441	688,583
Depreciation and amortization	1,904,095	1,749,268
Interest	1,253,854	890,388
Bad debts	7,771,334	7,817,703
Insurance	1,371,153	1,577,039
Other	<u>1,966,469</u>	<u>1,743,869</u>
Total expenses	<u>68,409,209</u>	<u>64,171,046</u>
Income (loss) from operations	(4,608,466)	461,360
Extraordinary expense	<u>255,620</u>	<u>-0-</u>
Net change in unrestricted net assets	(4,864,086)	461,360
Net change in temporarily restricted net assets	<u>488,757</u>	<u>46,496</u>
Net change in total net assets	(4,375,329)	507,856
Net accumulated deficit, beginning of year	<u>(3,477,737)</u>	<u>(3,985,593)</u>
Net accumulated deficit, end of year	<u>\$ (7,853,066)</u>	<u>\$ (3,477,737)</u>

See accompanying notes to the financial statements

VICTOR VALLEY COMMUNITY HOSPITAL

Statements of Cash Flows

	Year Ended September 30	
	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net change in net assets	\$ (4,375,329)	\$ 507,856
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,904,095	1,749,268
Changes in operating assets and liabilities:		
Patient accounts receivable	2,896,577	(332,833)
Other accounts receivable	(472,459)	269,583
Supplies	640,406	(849,973)
Prepaid expenses and other current assets	(433,542)	(154,401)
Estimated third-party payor settlements	2,871,324	(137,741)
Accounts payable and accrued expenses	89,617	731,033
Accrued payroll and related liabilities	(154,399)	390,218
Other liabilities	<u>(1,961,938)</u>	<u>657,985</u>
Net cash provided by operating activities	1,004,352	2,831,642
Cash flows from investing activities:		
Purchases of property and equipment	(4,323,591)	(1,555,148)
Net change in assets limited as to use	<u>2,318,779</u>	<u>(565,377)</u>
Net cash used in investing activities	(2,004,812)	(2,120,525)
Cash flows from financing activities:		
Proceeds from debt borrowings	2,048,578	350,000
Repayment of debt borrowings	<u>(1,237,515)</u>	<u>(1,105,694)</u>
Net cash provided by (used in) financing activities	<u>811,063</u>	<u>(755,694)</u>
Net decrease in cash and cash equivalents	(189,397)	(44,577)
Cash and cash equivalents, beginning of year	<u>1,012,235</u>	<u>1,056,812</u>
Cash and cash equivalents, end of year	<u>\$ 822,838</u>	<u>\$ 1,012,235</u>
Supplemental disclosure of cash flows information:		
Cash paid for interest	<u>\$ 747,318</u>	<u>\$ 900,510</u>

See accompanying notes to the financial statements

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Organization – Victor Valley Community Hospital (the Hospital), located in Victorville, California, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient, emergency care and post-acute services.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include certain investments in certificates of deposit, U.S. Treasury obligations and savings accounts with original maturities of generally one year or less.

Investments - Investments in equity securities with readily determined fair values and all investments in debt securities are measured at fair value on the balance sheet. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the statement of operations unless the income or loss is restricted by the donor or law. Unrealized gains and losses on investments are excluded from the statement of operations unless the investments are trading securities.

Assets limited as to use - Assets limited as to use primarily include assets held by trustees under indenture agreements, assets set aside as reserves for a capitation/risk pool program and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion, subsequently use for other purposes. Assets whose use is limited may also consist from time to time of donor restricted cash and cash equivalents.

Property and equipment - Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are included in the statement of operations, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other asset that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Net patient service revenue - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursement 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Charity care - The Hospital provides care to patients who meet certain criterion under its charity care policy. The Hospital provides medical care to patients regardless of their ability to pay. The evaluation of the necessity for medical treatment of any patient is based upon clinical judgment, irrespective of the financial status of the patient. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenue. See note 7.

Donor-restricted gifts - 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 reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulation 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 reported as unrestricted contributions in the accompanying financial statements.

Income taxes - The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Sec. 501(c)(3) of the Internal Revenue Code.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2010

NOTE 2 - NET PATIENT SERVICE REVENUE

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary accordingly to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient acute services, certain outpatient services, post-acute care services and defined capital costs related to Medicare beneficiaries are paid based on predetermined reimbursement methodologies. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. As of September 30, 2010 the fiscal intermediary has final settled cost reports through September 30, 2008.

Medi-Cal - Inpatient and outpatient services are reimbursed based on the Hospital's allowable costs. As of September 30, 2010 the fiscal intermediary (California State Department of Health Services) has final settled cost reports through September 30, 2008.

Other Third-Party Payors - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

During the course of a recent audit by the Hospital's Medicare fiscal intermediary it was determined that incorrect rates were being used by the Hospital in certain Medicare Disproportionate Share payment calculations and that there was a discrepancy in the licensing of certain Hospital facilities. Based on the Medicare fiscal intermediary's findings, Medicare has made a claim for repayment of \$7,092,508. The claim covers fiscal years ending September 30, 2006 to September 30, 2009. The claim has been recorded at September 30, 2010 as a component of estimated third-party payor settlements and as a deduction from patient service revenue.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2010

NOTE 3 - ASSETS LIMITED AS TO USE

The composition of assets limited as to use at September 30, 2010 and 2009, is set forth in the following table.

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents:		
Held as reserve for risk pool	\$ 490,274	\$ 2,619,109
Held by trustee under indenture agreements	1,349,098	1,352,865
Board designated	12,551	203,095
Victor Valley Community Hospital Foundation trust account	<u>389,250</u>	<u>384,883</u>
	2,241,173	4,559,952
Less amounts required to meet current obligations	<u>(1,615,498)</u>	<u>(2,213,211)</u>
	<u>\$ 625,675</u>	<u>\$ 2,346,741</u>

NOTE 4 - PROPERTY AND EQUIPMENT

The components and amounts which comprise property and equipment as of September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 1,597,642	\$ 1,555,961
Buildings and improvements	24,666,813	24,408,336
Equipment	25,459,667	21,580,771
Construction in progress	<u>562,737</u>	<u>418,200</u>
	52,286,859	47,963,268
Less: accumulated depreciation	<u>(34,704,356)</u>	<u>(32,826,756)</u>
	<u>\$ 17,582,503</u>	<u>\$ 15,136,512</u>

NOTE 5 - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of gross patient accounts receivable from patients, federal, state and third-party payors at September 30, 2010 and 2009 was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	30%	18%
Medi-Cal	33%	39%
Insurance and other third-party payors	23%	28%
Private pay	<u>14%</u>	<u>16%</u>
Total	<u>100%</u>	<u>100%</u>

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2010

NOTE 6 – LONG-TERM DEBT

Long-term debt consists of the following:

	September 30,	
	<u>2010</u>	<u>2009</u>
California Health facilities Financing Authority Insured Hospital Refunding Revenue Bonds, Series 2000A, original amount of \$8,470,000 of term bonds maturing annually on July 1 through 2012, interest payable semi-annually on January 1, and July 1, at rates varying from 4.60% to 5.375%, secured by property and receivables.	\$ 1,790,000	\$ 2,620,000
Note payable to a bank, bearing interest at the bank's prime rate minus 2.0% (5.75% at September 30, 2010), payable in monthly principal payments of \$5,000 plus interest, maturing August 2010.	4,438,782	4,503,782
Note payable to a management services company (see note 9), bearing interest at the prime rate plus 2% (5.25% at September 30, 2010), interest payable monthly, maturing February 2012, secured by property.	6,000,000	6,000,000
Note payable to the California State Department of Health Services, due in monthly installments of \$27,577, with interest at 5.65%, final payment due in May 2044.	5,583,774	5,479,998
Note payable to a medical group, bearing interest at 5%, interest payable at maturity, maturing December 2010, secured by certain receivables.	700,000	-0-
Note payable to a healthcare services foundation (DIP Loan), bearing interest at 1%, interest payable at maturity, maturing December 2010, secured by certain receivables.	1,100,000	-0-
Note payable to two individuals as part of a legal settlement, due in monthly installments of \$20,000, with no provision for interest, final payment due in December 2010.	50,000	290,000
Minor notes payable and capital leases, interest charged at various rates from 8.7% to 13.6%, with maturities at various times through 2010.	<u>88,425</u>	<u>46,139</u>
Total debt borrowings	19,750,981	18,939,919
Less unamortized bond discount	(10,476)	(16,452)
Less current portion	<u>(2,902,030)</u>	<u>(1,226,839)</u>
	<u>\$ 16,838,475</u>	<u>\$ 17,696,628</u>

Future principal maturities for debt borrowings for the succeeding years are: \$2,902,030 in 2011; \$1,074,846 in 2012; \$157,663 in 2013; \$160,643 in 2014; \$153,459 in 2015; and \$15,302,340 thereafter.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2010

NOTE 6 – LONG-TERM DEBT (continued)

In May 2000, the Hospital issued \$8,470,000 of Series 2000A Health Facility Revenue Bonds. The proceeds of the Series 2000A Bonds were used to refund the Series 1984A Health Facility Revenue Bonds outstanding at the time, fund a Bond Reserve and Insurance Fund pursuant to the bond indenture agreement and pay certain bond issuance costs. In accordance with the terms of the revenue bond agreement, the Hospital has established fund accounts, which are limited as to use for the repayment of the bonds, and are maintained by a trustee. The funds held under an indenture agreement, consisting of cash and cash equivalents, are included in the accompanying balance sheet as of September 30, 2010 and 2009 as "assets limited as to use" in the amount of \$1,349,098 and \$1,352,865 respectively. The bonds carry interest rates that range from 4.60% to 5.375%. The Hospital's property, equipment and gross revenues collateralize the bonds. The Hospital's bond agreement contains various restrictive covenants that, among other things, require the maintenance of certain levels of earnings and provides for restrictions on fixed asset additions and additional indebtedness.

NOTE 7 – CHARITY CARE

The Hospital has a policy to treat patients regardless of their ability to pay. A patient is classified as a charity patient if certain criterions of the charity care policy are met. Essentially, these policies define charity services as those services for which no payment is anticipated.

The Hospital also provides programs and activities that contribute to charity care, care of the poor and for community benefit. These programs and activities serve a majority of persons who are beneficiaries of MediCal, other state and county programs, or are medically indigent.

The estimated health care services provided by the Hospital to the poor and underserved community are summarized as follows:

	<u>For the year ended September 30.</u>	
	<u>2010</u>	<u>2009</u>
Traditional charity care and uninsured patients	\$ 3,877,423	\$ 4,453,318
Unpaid cost of public programs	<u>10,883,310</u>	<u>8,920,242</u>
Total charity and community benefits	<u>\$ 14,760,733</u>	<u>\$ 12,743,560</u>

Traditional Charity Care and Uninsured Patients – includes the cost of services provided to persons who are unable to pay, in full or in part, for their healthcare services and/or who are uninsured or underinsured.

Unpaid Cost of Public Programs – also benefits the poor, but is listed separately. This amount represents the unpaid cost of services provided to patients in the MediCal program and enrolled in HMO and PPO plans under contract with the MediCal program.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2010

NOTE 7 – CHARITY CARE (continued)

The Hospital also incurred costs in excess of payments received for services provided to Medicare beneficiaries during the years ended September 30, 2010 and 2009 in the amount of \$1,934,745 and \$1,154,863 respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Operating leases - The Hospital leases various equipment and facilities under operating leases expiring at various dates. Lease and rental expense under such agreements was \$779,441 and \$688,583 for the years ended September 30, 2010 and 2009, respectively. Future minimum lease payments under operating leases as of September 30, 2010 that have initial or remaining lease terms in excess of one year are not considered significant.

Medical Malpractice Insurance - The Hospital purchases professional and general liability insurance to cover medical malpractice claims. The Hospital maintains its medical malpractice insurance coverage on a claims-made pooled and participating self-insurance program for hospitals.

Litigation - The Hospital is party to legal proceedings and claims that arise during the ordinary course of business. In the opinion of management, the ultimate outcome of the litigation will not have a material, adverse effect on the Hospital's financial statements.

NOTE 9 – MANAGEMENT SERVICES AGREEMENT

In February 2005, the Hospital entered into an Agreement for Management Services (the Agreement) with Physicians Hospital Management, LLC (PHM). The agreement gives PHM the authority and responsibility to conduct, supervise and manage the day-to-day operations of the Hospital. The Agreement is for three years and expires in February 2011. The Agreement may be extended on a three rolling basis upon mutual written agreement of the Hospital and PHM. The Agreement may also be terminated for certain defined reasons, including written request by the Office of Statewide Health Planning and Development of the State of California. During the years ended September 30, 2010 and 2009, the Hospital incurred approximately \$360,000 in fees and expenses attributed to PHM, respectively.

As of September 30, 2010 and 2009, the Hospital had a \$6,000,000 note payable to PHM, which is reflected as long-term debt in the accompanying balance sheets (see Note 6). The note payable is secured pursuant to a third deed of trust on Hospital property. The note bears interest at prime rate plus 2% (5.25% at September 30, 2010). Interest only is due and payable monthly, with principal and any accrued interest payable due in full on February 1, 2012.

VICTOR VALLEY COMMUNITY HOSPITAL

Notes to Financial Statements

September 30, 2010

NOTE 10 – VICTOR VALLEY COMMUNITY HOSPITAL FOUNDATION

During the year ended September 30, 2002, the Hospital established the Victor Valley Community Hospital Foundation (the Foundation). The Foundation's primary purpose is the procurement and extension of financial aid toward the operation, maintenance, and modernization of the Hospital. During the years ended September 30, 2010 and 2009, the Foundation has been accounted for as a component unit of the Hospital. The Foundation is not separately incorporated. The only asset of the Foundation is cash (deposited in a designated bank account separate from other Hospital monies). The Foundations cash is included in assets limited as to use in the accompanying balance sheets (see Note 3). The Foundation has its own officers, who are authorized signers on the bank account. It is anticipated that Foundation funds currently held or received in the future will be used for capital improvements, operations, or for other purposes on behalf of the Hospital. The Foundation made cash contributions of approximately \$223,153 and \$0- during the fiscal years ended September 30, 2010 and 2009, respectively.

NOTE 11 - PENSION PLAN

The Hospital has a defined contribution pension plan, the Victor Valley Community Hospital 401(k) Plan. The plan was established in January 2005 and is available to substantially all employees meeting certain service requirements. The Hospital may make discretionary contributions to the plan as approved by the board of directors. During the years ended September 30, 2010 and 2009 the Hospital contributed approximately \$74,000 and \$75,000, respectively, to the plan on behalf of participants.

NOTE 12 – GOING CONCERN UNCERTAINTY

The accompanying financial statements have been prepared assuming the Hospital will continue as a going concern, which contemplates realization of assets and satisfaction of liabilities in the normal course of business. The Hospital has experienced recurring cash shortages and was not able to meet ongoing obligations from operations and is in default on certain covenants of the loan agreements on the California Health Facilities Financing Authority Insured Hospital Refunding Revenue Bonds, Series 2000A. The Hospital filed for protection under United States Bankruptcy Law in September 2010. The Hospital was subsequently offered for sale and is in the process of completing a sales contract with a qualified buyer, however there can be no assurance that this sale will be completed. These matters raise substantial doubt about the Hospital's ability to continue as a going concern. The September 30, 2010 financial statements do not include any adjustments that might result from the outcome of this uncertainty.