

Oroville Hospital and Subsidiaries

Consolidated Financial Statements

November 30, 2017 and 2016



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Oroville Hospital and Subsidiaries
Oroville, California

We have audited the accompanying consolidated financial statements of Oroville Hospital and Subsidiaries (the "Hospital"), which comprise the consolidated statements of financial position as of November 30, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Oroville Hospital and Subsidiaries as of November 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information on pages 28 - 30 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Prior Period Financial Statements

The consolidated financial statements of Oroville Hospital and Subsidiaries as of November 30, 2016, were audited by other auditors whose report dated April 13, 2017, expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Ramon, California

April 17, 2018

Oroville Hospital and Subsidiaries
Consolidated Statements of Financial Position
November 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets		
Cash and cash equivalents	\$ 6,661,859	\$ 22,928,130
Assets limited as to use	680,351	664,000
Patient accounts receivable, net of allowance for doubtful accounts of \$84,660,793 and \$71,442,668 in 2017 and 2016, respectively	30,863,702	23,438,889
Supplemental funding receivables	47,340,775	13,017,371
Other receivables	989,357	1,234,594
Inventory	2,300,981	2,075,019
Prepaid expenses	1,098,853	1,268,900
Current portion of notes receivable	459,008	81,674
Investments, marketable securities	28,401,131	29,785,895
Total current assets	118,796,017	94,494,472
Property and equipment, net	56,263,963	38,092,941
Other assets		
Notes receivable, net of current portion	3,515,374	529,444
Investment in Comp-OH, LLC	613,681	475,410
Investment in Oroville Hospital Post Acute Care	-	289,911
Investment in Solar Partners, LLC	-	7,000
Total other assets	4,129,055	1,301,765
Total assets	\$ 179,189,035	\$ 133,889,178

The accompanying notes are an integral part of these consolidated financial statements.

Oroville Hospital and Subsidiaries
Consolidated Statements of Financial Position
November 30, 2017 and 2016

	2017	2016
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt	\$ 3,848,444	\$ 2,818,871
Current portion of capital lease obligations	3,137,394	2,728,091
Accounts payable	12,643,071	11,213,117
Supplemental funding payable	16,924,217	8,457,594
Estimated Medicare and Medi-Cal settlements	65,580	142,804
Due to affiliates	4,889,108	3,058,886
Accrued payroll and payroll taxes	6,582,436	5,216,352
Accrued vacation	7,749,700	7,094,112
Accrued professional fees	3,310,584	2,907,165
Accrued insurance	1,973,923	1,226,831
Accrued pension contribution	1,948,894	1,800,197
Other accrued liabilities	1,151,513	1,138,003
Total current liabilities	64,224,864	47,802,023
Long-term liabilities		
Long-term debt, net of current portion	25,843,237	16,368,536
Capital lease obligations, net of current portion	7,676,312	6,406,724
Total long-term liabilities	33,519,549	22,775,260
Total liabilities	97,744,413	70,577,283
Net assets		
Unrestricted		
Unrestricted	78,948,782	63,311,895
Non-controlling interest	2,495,840	-
Total unrestricted net assets	81,444,622	63,311,895
 Total liabilities and net assets	 \$ 179,189,035	 \$ 133,889,178

The accompanying notes are an integral part of these consolidated financial statements.

Oroville Hospital and Subsidiaries
Consolidated Statements of Activities
For the Years Ended November 30, 2017 and 2016

	2017	2016
Revenues, gains and other support		
Net patient service revenue net of provision for bad debts of \$7,463,950 in 2017, and \$3,705,150 in 2016	\$284,203,459	\$249,678,182
Other revenue	<u>2,711,984</u>	<u>1,410,874</u>
Total revenues, gains and other support	<u>286,915,443</u>	<u>251,089,056</u>
Operating expenses		
Salaries and wages	94,471,705	83,288,136
Employee benefits	39,369,173	35,798,261
Legal and professional fees	47,732,945	43,975,773
Supplies	33,685,244	29,084,799
Purchased services	17,163,657	12,479,007
Depreciation	7,446,663	7,137,912
Rent	5,891,707	4,893,167
Insurance	2,341,373	2,227,182
Interest expense	1,475,138	1,189,931
Utilities	1,996,249	1,635,796
Hospital fee program payments	14,588,616	15,597,497
Other expenses	<u>5,847,863</u>	<u>4,241,975</u>
Total operating expenses	<u>272,010,333</u>	<u>241,549,436</u>
Change in net assets from operations	<u>14,905,110</u>	<u>9,539,620</u>
Non-operating income		
Investment income	1,154,812	110,324
Non-operating income	<u>14,454</u>	<u>9,005</u>
Total non-operating income	<u>1,169,266</u>	<u>119,329</u>
Change in net assets	16,074,376	9,658,949
Unrestricted net assets, beginning of year	63,311,895	53,652,946
Contributions from non-controlling ownership interests	2,286,338	-
OHPAC net deficit assumed	<u>(227,987)</u>	<u>-</u>
Unrestricted net assets, end of year	<u>\$ 81,444,622</u>	<u>\$ 63,311,895</u>

The accompanying notes are an integral part of these consolidated financial statements.

Oroville Hospital and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended November 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ 16,074,376	\$ 9,658,949
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	7,446,663	7,137,912
Amortization of debt issuance costs	55,408	54,660
Loss on disposal of assets	-	64,440
Realized and unrealized (gains) losses on marketable securities	(116,332)	214,105
Realized loss on investments, other	158,640	93,118
Notes receivable forgiven	122,801	-
OHPAC net deficit assumed	(227,987)	-
Changes in operating assets and liabilities		
Patient accounts receivable, net	(7,424,813)	(378,114)
Supplemental funding receivable	(34,323,404)	(3,907,499)
Other receivables	245,237	-
Inventory	(225,962)	(224,730)
Prepaid expenses	170,047	129,381
Accounts payable and other accrued liabilities	4,764,344	4,105,994
Supplemental funding payable	8,466,623	-
Estimated Medicare and Medi-Cal settlements	(77,224)	(938,261)
Due to affiliates	1,830,222	453,019
Net cash provided by (used in) operating activities	(3,061,361)	16,462,974
Cash flows from investing activities		
Purchase of property and equipment	(20,729,503)	(1,388,063)
Payments received on notes receivable	266,508	215,406
Cash loaned under notes receivable	(3,752,573)	(250,000)
Purchase of investments, marketable securities	(15,011,012)	(30,007,000)
Sales of investments, marketable securities	16,512,108	-
Proceeds from sale of property and equipment	-	6,499
Net cash used in investing activities	(22,714,472)	(31,423,158)
Cash flows from financing activities		
Borrowings under notes payable	13,543,357	-
Principal payments on notes payable and capital leases	(6,303,782)	(4,632,161)
Capital contributions from noncontrolling ownership interests	2,286,338	-
Net change in funds held by trustee	(16,351)	(985,008)
Net cash provided by (used in) financing activities	9,509,562	(5,617,169)
Net decrease in cash	(16,266,271)	(20,577,353)
Cash, beginning of year	22,928,130	43,505,483
Cash, end of year	\$ 6,661,859	\$ 22,928,130

Supplemental disclosure of cash flow information

Cash paid during the year interest	\$ 1,474,067	\$ 1,182,176
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Supplemental schedule of noncash investing and financing activities

Acquisition of property and equipment with capital lease financing	\$ 4,888,182	\$ -
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The accompanying notes are an integral part of these consolidated financial statements.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

1. NATURE OF OPERATIONS

Oroville Hospital (the "Hospital") located in Oroville, California, is a not-for-profit acute care hospital. The Hospital provides health care services to the residents of Oroville and surrounding communities and derives a significant portion of its revenue from third-party payors, including Medicare, Medi-Cal, and private insurance. The Hospital is a subsidiary of OroHealth Corporation: A Nonprofit Health Care System.

On June 1, 2014, the Hospital purchased from EmpRes Healthcare Group, Inc., a 49% share interest in 1000 Executive Parkway, LLC (doing business as Oroville Hospital Post-Acute Care) ("OHPAC") for a purchase price of \$671,300. OHPAC was formed as a 126-bed skilled nursing facility and is used by the Hospital as an extended care unit. The Hospital accounted for this investment on the equity method of accounting. On May 30, 2017, the Hospital and EmpRes Healthcare Group, Inc. entered into an agreement whereby the Hospital was assigned the remaining 51% interest in OHPAC, obtaining 100% ownership effective as of July 1, 2017. OHPAC has been consolidated in the Hospital's financial statements effective December 1, 2016.

OHPAC Partners, LLC ("OHPAC Partners") was formed on January 30, 2017 to own, lease, sell, maintain, manage, finance, and develop real estate commercial buildings located at 1000 Executive Parkway, Oroville, California, and conduct related medical office activities. In July 2017, the Hospital entered into an agreement with OHPAC Partners and certain individual members in which the Hospital made contributions of \$2,000,000 to OHPAC Partners to obtain a 51.28% ownership of the entity.

In January 2017, the Hospital entered into an agreement with individual members to organize the entity Oroville Medical Partners, LLC ("OMP"), a limited liability company, to own, lease, sell, maintain, managed, finance, and develop real estate commercial buildings located at 2760 and 2780 Oro Dam Blvd., Oroville, California, and to conduct related medical office activities. Per the terms of the agreement, the Hospital made contributions of \$303,705 to OMP to obtain 51% ownership of the entity.

Oroville Solar Partners, LLC ("OSP"), a limited liability company, was formed on June 23, 2016, for the purposes of engaging in the acquisition, construction, lease, ownership and sale, and the operation, management, maintenance and financing of the electric generating solar system. In October 2016, the Hospital entered into an operating agreement with OSP and two other members whereby the Hospital obtained 50% ownership of OSP after making contributions of \$7,000 in 2016 and \$133,783 during 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

These consolidated financial statements include the accounts of the Hospital, OHPAC, OHPAC Partners, OMP, and OSP. Accounts of the limited liability companies are consolidated as of December 31, 2017. No events occurred in the limited liability companies during the months of December 2016 or 2017 that materially affected the consolidated Hospital's financial position, results of operations, or cash flows. All significant intercompany transactions and balances have been eliminated in the consolidation. The financial statements include only the accounts of the Hospital as of and for the year-ended November 30, 2016.

Cash and cash equivalents

Cash and cash equivalents include deposits with financial institutions and all highly liquid instruments with an original maturity of three months or less. Cash and cash equivalents are held in various financial institutions and, at times, such balances may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Hospital has not experienced any losses on its deposits of cash and cash equivalents.

Investments

Investments are measured at fair value. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in non-operating income.

Patient accounts receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. The Hospital provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient, the Hospital bills third-party payors directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account. No interest is charged to patients for delinquent accounts.

Inventories

Inventories include pharmaceutical, surgical, and medical supplies and are stated at the lower of cost or market. Cost is determined on the first-in, first-out method.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in limited liability companies

On November 1, 2013, the Hospital and Comprehensive Management, Inc., formed the entity, Comp-OH, LLC, which provides certain patient billing services for the Hospital. The Hospital invested \$250,000 to obtain a 49% share in this entity, which is accounted for on the equity method. The Hospital's investment was initially recorded at cost and is adjusted annually for the Hospital's proportionate share of earnings or losses.

Assets limited as to use

Assets limited as to use include money market funds held by trustees under an indenture agreement. Amounts required to meet current liabilities have been reclassified in the balance sheets.

Fair value measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The following methods and assumptions were used to estimate the fair value of financial instruments recorded on a recurring basis:

- *Level 1* - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Hospital has the ability to access at the measurement date.
- *Level 2* - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- *Level 3* - Inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the year ended November 30, 2017 and 2016.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *Money Market Funds* - Amounts are interest-bearing deposit accounts, which at times may be in excess of the Federal Deposit Insurance Corporation insurance limit. Shares of money market funds are valued daily based on the underlying securities held by the fund.
- *Mutual Funds* - These assets are valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-ended mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price. The mutual funds held by the Hospital are deemed to be actively traded.
- *Corporate Bonds* - These assets are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing the value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar bonds, those corporate bonds are valued under a discounted cash flow approach that maximizes observable inputs, such as current yields or similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.
- *U.S. Government Securities* - These assets are valued using pricing models maximizing the use of observable inputs for similar securities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Property and equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

Excess of revenues over expenses

The Hospital's primary purpose is to provide comprehensive health care services to the community. As such, all activities related to the ongoing operations of the Hospital are classified as operating activities. Operating revenues include those generated from direct patient care and related support services. The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets, if any, which are excluded from excess of revenues over expenses and consistent with industry practice, include unrealized gains and losses on investments other than trading securities or investments accounted for using the equity method, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets.

Net patient service revenue

The Hospital has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient 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.

Income taxes

The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue code and Section 23701(d) of the California Revenue and Taxation Code. The Hospital has not entered into any activities that would jeopardize its tax-exempt status. The Hospital's limited liability companies, OHPAC, OHPAC Partners, OMP, and OSP, are taxed as partnerships and income or loss of the entities are reported by the partners on their individual tax returns.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

The Hospital has evaluated its current tax positions and has concluded that as of November 30, 2017 and 2016, it does not have any uncertain tax positions for which a reserve would be necessary. Therefore, no provision or liability for income taxes has been recorded other than the California minimum franchise tax of \$800 and the required LLC fees based on total annual income.

The Hospital files exempt organization returns in the U.S. federal and state of California jurisdictions. The federal and California exempt organization returns remain subject to examination by the taxing authorities generally for periods of three and four years, respectively, after the returns are filed.

Supplemental funding receivable and payable

The Hospital participates in the California Hospital Quality Assurance Fee Program ("HQAF") and the Disproportionate Share Hospital ("DSH") Program, which provide state and federal funds to subsidize the costs associated with providing care to uninsured and low-income patients.

DSH Program: At November 30, 2017, the Hospital recorded a \$2,370,874 receivable from the Department of Health Care Services ("DHS") for supplemental funding due for the period from June 1, 2016 through November 30, 2017 based upon funding information received from DHS. At November 30, 2016, the Hospital recorded a receivable of \$706,254 from DHS for supplemental funding due for the period through November 30, 2016.

HQAF Program: At November 30, 2017 and 2016, the Hospital has a receivable for expected HQAF payments to be received of \$44,969,901 and \$12,311,117, respectively. At November 30, 2017 and 2016, the Hospital has a payable for expected HQAF payments to be made of \$16,924,217 and \$8,457,594, respectively. The receivable and payable are recognized based upon the estimated schedule of fees, payments and pledges prepared by the California Hospital Association who is responsible for the model of projected payments and fees on behalf of DHS. At November 30, 2017, The Hospital has a receivable of \$8,182,370 for the service period from January 1, 2014 through December 31, 2016, and a receivable of \$36,787,531 for the service period from January 1, 2017 through November 30, 2017. See Note 12.

3. CHARITY CARE

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, the charges are fully reserved for. The cost of charity care is calculated by determining the average cost-to-charge ratio across the Hospital and multiplying it by the foregone charges. The charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated approximately \$16,400,000 and \$16,500,000 in 2017 and 2016, respectively.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

4. THIRD-PARTY PAYOR ARRANGEMENTS

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

Medicare

Inpatient acute services rendered to Medicare program beneficiaries are paid at prospectively determined rates for a patient's entire stay based on the patient's assignment to a diagnosis-related group (DRG). Hospital outpatient services related to Medicare beneficiaries are paid a prospective payment based on the patient's assignment to an ambulatory payment classification (APC), except for rural health clinic services which are paid under a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The final settlement amount cannot exceed the rural health clinic (RHC) upper payment limit per visit as established annually by the Centers for Medicare and Medi-Cal Services (CMS). The Hospital's classification of patients under the Medicare program, and the appropriateness of their admission, are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through November 30, 2013. Medicare charges, measured at established rates, approximated \$377,651,764 and \$333,006,214 in 2017 and 2016, respectively. The difference between established rates and net patient service revenue approximated \$259,840,487 and \$228,249,076 in 2017 and 2016, respectively.

Medi-cal

The Hospital has a contract with the Department of Health Services for the treatment of Medi-Cal inpatients. Inpatient charges under Medi-Cal managed care are reimbursed at an all-inclusive flat rate per day. Inpatient charge under traditional Medi-Cal are reimbursed under a diagnostic related group methodology. Under this methodology, similar to Medicare, services are paid at prospectively determined rates per discharge according to a patient classifications system that is based on clinical, diagnostic, and other factors. Although not used for payment purposes, the Hospital shall continue to complete and submit Medi-Cal cost reports. The Hospital's Medi-Cal cost reports have been submitted through November 30, 2016. Outpatient Medi-Cal services are paid at prospectively determined rates per procedure determined by the state of California. Medi-Cal charges, measured at established rates, approximated \$311,851,761 and \$283,028,240 in 2017 and 2016, respectively. The difference between established rates and net patient service revenue approximated \$228,265,968 and \$207,323,368 in 2017 and 2016, respectively.

Gross revenue from the Medicare and Medi-Cal programs accounted for approximately 42% and 33% (2017) and 41% and 34% (2016), respectively, of the total gross patient revenue. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change in the near term.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

4. THIRD-PARTY PAYOR ARRANGEMENTS (continued)

Other arrangements

The Hospital 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.

5. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Hospital's assets at fair value as of November 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Assets limited as to use				
Money market funds	\$ 680,351	\$ -	\$ -	\$ 680,351
	<u>680,351</u>	<u>-</u>	<u>-</u>	<u>680,351</u>
Investments, marketable securities				
Money market funds	409,405	-	-	409,405
Mutual funds	5,380,678	-	-	5,380,678
Corporate bonds	-	10,515,327	-	10,515,327
U.S. Government securities	-	12,095,720	-	12,095,720
	<u>5,790,083</u>	<u>22,611,047</u>	<u>-</u>	<u>28,401,130</u>
	<u>\$ 6,470,434</u>	<u>\$ 22,611,047</u>	<u>\$ -</u>	<u>\$ 29,081,481</u>

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

5. INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Hospital's assets at fair value as of November 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Assets limited as to use				
Money market funds	\$ 664,000	\$ -	\$ -	\$ 664,000
	<u>664,000</u>	<u>-</u>	<u>-</u>	<u>664,000</u>
Investments, marketable securities				
Money market funds	2,568,641	-	-	2,568,641
Mutual funds	1,496,245	-	-	1,496,245
Corporate bonds	-	13,537,993	-	13,537,993
U.S. Government securities	<u>-</u>	<u>12,183,016</u>	<u>-</u>	<u>12,183,016</u>
	<u>4,064,886</u>	<u>25,721,009</u>	<u>-</u>	<u>29,785,895</u>
	<u>\$ 4,728,886</u>	<u>\$ 25,721,009</u>	<u>\$ -</u>	<u>\$ 30,449,895</u>

Although the Hospital intends to hold the investments indefinitely, it maintains the ability to liquidate all investments within twelve months and as necessary to support operations and thus have been reported as part of current assets on the statement of financial position. Money market and mutual funds may be liquidated upon demand.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2017</u>	<u>2016</u>
Land and improvements	\$ 5,694,494	\$ 1,459,437
Buildings and improvements	49,717,101	37,695,585
Equipment	75,965,052	66,731,144
Construction in progress	<u>762,889</u>	<u>18,799</u>
	132,139,536	105,904,965
Accumulated depreciation	<u>(75,875,573)</u>	<u>(67,812,024)</u>
	<u>\$ 56,263,963</u>	<u>\$ 38,092,941</u>

Depreciation expenses amounted to \$7,446,663 and \$7,137,912 for the years ended November 30, 2017 and 2016, respectively. Accumulated depreciation for equipment under capital lease obligations was \$2,952,383 and \$5,880,498 at November 30, 2017 and 2016, respectively.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

7. BONDS PAYABLE

Bonds payable are detailed as follows:

	2017	2016
City of Oroville Insured Hospital Revenue Bonds	\$ 10,310,000	\$ 11,305,000
Less unamortized debt issuance costs	(455,497)	(510,156)
Current portion	(1,020,000)	(995,000)
	\$ 8,834,503	\$ 9,799,844

The future maturities of the bond payable are as follows:

Year ending November 30,

2018	\$ 1,020,000
2019	1,050,000
2020	1,080,000
2021	1,110,000
2022	1,145,000
Thereafter	4,905,000
	10,310,000
Less: unamortized debt issuance costs	(455,497)
Bonds payable, net of debt issuance costs	9,854,503
Current portion	(1,020,000)
	\$ 8,834,503

Bond issuance costs are amortized over the life of the related bond. The associated expenses are included in interest expenses in the statements of operations.

In April 2012, the 1997 Insured Hospital Revenue Bonds were refunded and \$15,000,000 of 2012 Variable Rate Demand Hospital Revenue Bonds Series A were issued. The 2012 bond funds were used to refund the 1997 bonds, finance the acquisition, develop and install certain new capital improvements, and pay the costs of issuance of the bonds. The 2012 bonds are secured by a letter of credit issued by Comerica Bank. Interest is currently payable monthly at a variable rate. This rate is determined by Gates Capital Corporation, the remarketing agent, using the SIFMA Municipal Swap Index weekly rate, which was 0.97% and 0.56% as of November 30, 2017 and 2016, respectively. There was an interest rate cap contract on the bonds through April 2017 which was considered a derivative instrument and is further described in Note 10. The 2012 Series A bonds are convertible to bear interest at a fixed rate at the election of the Hospital, in which case interest would be payable semi-annually. The fixed interest rate is determined by the remarketing agent at the time of the conversion. Principal maturities for the serial bonds, aggregating \$15,000,000, range from \$885,000 to \$1,285,000 and are due annually on April 1 through 2026.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

7. BONDS PAYABLE (continued)

Under the terms of the Reimbursement Agreement with Comerica Bank dated April 1, 2012, the Hospital is required to maintain and report a debt-service-coverage ratio of 1.25, liquidity of not less than \$8,000,000, and debt-to-capitalization ratio of not more than .75. In addition, the Hospital must make monthly deposits with Comerica Bank for bond principal payments due within the next 12 months. As of November 30, 2017 and 2016, the Hospital was in compliance with all covenants.

8. CAPITAL LEASE OBLIGATIONS

Capital lease obligations have varying rates of interest from 1.6% to 9%. Obligations are collateralized by leased equipment with amortized costs of \$9,841,427 and \$7,716,997 at November 30, 2017 and 2016, respectively. Leases expire in various years through 2022.

Capital lease assets consist of the following:

	2017	2016
Current portion of capital lease obligations	\$ 3,137,394	\$ 2,728,091
Capital lease obligations, net of current portion	7,676,312	6,406,728
	\$ 10,813,706	\$ 9,134,819

Future maturities of capital lease obligations are as follows:

Year ending November 30,	
2018	\$ 3,504,709
2019	3,005,582
2020	2,476,781
2021	1,590,865
2022	836,633
Thereafter	201,226
	11,615,796
Less: imputed interest	(802,090)
	\$ 10,813,706

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

9. NOTES PAYABLE

Notes payable are detailed as follows:

	2017	2016
Note payable to First Citizens Bank and Trust company in 72 monthly installments of \$32,835, including interest of 3.25% through August 2019. The note is secured by medical equipment.	\$ 352,630	\$ 798,680
Note payable to Oroville Ford in 48 monthly installments of \$503, including interest of 0.90% through April 2017. The note is secured by a vehicle.	-	2,508
Note payable to GE Healthcare Financial Services in 48 monthly installments of \$8,095, including interest of 5.04% through July 2017. The note is secured by building improvements.	-	63,554
Note payable to First Citizens Bank and Trust Company in 84 monthly installments of \$6,734, including interest of 3.50% through November 2020. The note is secured by medical equipment.	211,817	284,049
Note payable to First Citizens Bank and Trust Company in monthly installments of \$23,831, including interest of 3.45% through July 2020. The note is secured by the assets of the Hospital. There are certain financial covenants with this note. The Hospital was in compliance with these covenants as of November 30, 2017.	711,633	967,818
Note payable to Comerica Bank in monthly installments of \$77,380, plus interest based on a variable rate through May 2022. The variable rate is one month LIBOR plus 0.75%, effectively 1.374% as of November 30, 2017. The note is secured by the Dove's Landing medical complex	4,101,219	5,029,790
Note payable to First Citizens Bank and Trust Company in 84 monthly installments of \$3,586, including interest of 3.95% through December 2022. The note is secured by real estate.	553,042	573,487
Note payable to First Citizens Bank and Trust Company in 84 monthly installments of \$1,824, including interest of 3.67% through March 2023. The note is secured by real estate.	288,357	300,351

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

9. NOTES PAYABLE (continued)

	2017	2016
Note payable to GM Financial in 72 monthly installments of \$1,182, including interest of 2.94% through July 2022. The note is secured by a vehicle.	61,794	73,969
Note payable to First Citizens Bank and Trust Company in 84 monthly installments of \$1,740, including interest of 3.45% through September 2023. The note is secured by real estate.	286,827	298,357
Note payable to First Citizens Bank and Trust Company in 78 monthly installments of \$45,000, including interest of 3.5% through May 2024. The note is secured by equipment.	2,912,394	-
Note payable to First Citizens Bank and Trust Company in 60 monthly installments of \$2,475, including interest of 3.85% through November 2022. The note is secured by equipment.	134,894	-
Note payable to First Citizens Bank and Trust Company in 95 monthly installments of \$53,972 plus one balloon payment of \$6,303,353, including interest of 3.70% through June 2025. The note is secured by property.	8,920,586	-
Note payable to First Citizens Bank and Trust Company in 83 monthly installments of \$3,889 plus one balloon payment of \$594,478, including interest of 4.10% through April 2024. The note is secured by property.	708,798	-
Note payable to First Citizens Bank and Trust Company in 83 monthly installments of \$3,889 plus one balloon payment of \$545,656, including interest of 4.10% through April 2024. The note is secured by property.	650,587	-
	19,894,578	8,392,563
Less unamortized debt issuance costs	(57,400)	-
	19,837,178	8,392,563
Current portion	(2,828,444)	(1,823,871)
	\$ 17,008,734	\$ 6,568,692

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

9. NOTES PAYABLE (continued)

The future maturities of the notes payable are as follows:

<u>Year ending November 30,</u>	
2018	\$ 2,828,444
2019	2,563,063
2020	2,460,579
2021	2,248,145
2022	2,121,553
Thereafter	<u>7,672,794</u>
	<u>\$ 19,894,578</u>

10. DERIVATIVE INSTRUMENTS OF HEDGING ACTIVITIES

The Hospital uses interest rate cap contracts as cash flow hedges to eliminate the cash flow exposure of interest rate movements on variable rate debt. The bonds issued in April 2012 are connected to an interest rate cap contract. The Hospital agreed to pay \$210,000 to cap the interest rate of the bond at 2% through April 2017. The cost of this premium is amortized over the five-year effective period of the cap and is included in prepaid expenses on the consolidated balance sheet. For the years ended November 30, 2017 and 2016, the effective variable interest was below the cap strike rate of 2%.

11. LINE OF CREDIT

The Hospital has a line of credit with Commerce Bank for the Commerce Bank Payable program in the amount of \$600,000 as of November 30, 2017 and 2016, respectively. The line of credit is secured partially with a deposit. As of November 30, 2017 and 2016, there was an outstanding balance included in accounts payable of \$133,296 and \$79,525, respectively. No interest is charged for the line of credit associated with the Commerce Bank payable program as it is paid off weekly by the Hospital.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

12. CALIFORNIA HOSPITAL QUALITY ASSURANCE FEE PROGRAM

The California Hospital Quality Assurance Fee Program ("HQAF") is a California safety net program, which uses fees assessed by the state on hospitals to draw down federal matching funds, which are then issued as supplemental payments to hospitals. The HQAF Program was first signed into law and became effective on January 1, 2010. The HQAF Program and all of its statutory provisions were made permanent through the passage of the MediCal Funding and Accountability Act (Proposition 52) in the November 2016 General Election. By removing the sunset date of Jan. 1, 2018, in the existing statute (SB 239, 2013), the Act becomes the framework for all future hospital fee programs. The Program consists of MediCal Supplemental fee-for-service and MediCal managed care fees to be paid by participating hospitals, in order to receive the associated supplemental funding. The California Health Foundation and Trust ("CHFT") is administering a private program to support charitable activities at various hospitals to alleviate losses resulting from the HQAF Program. Entities that receive a net benefit under the HQAF Program have agreed to contribute to CHFT in accordance with an enforceable pledge agreement.

The net benefit of this program to the Hospital is \$24,758,731 and \$13,576,523 as of November 30, 2017 and 2016, respectively.

A summary of the total activity for the Program is as follows:

	<u>2017</u>	<u>2016</u>
Medi-Cal Fee-for-Service program revenue	\$ 32,858,993	\$ 29,043,549
Managed care revenue	<u>6,488,354</u>	<u>130,471</u>
Total HQAF revenue	<u>39,347,347</u>	<u>29,174,020</u>
Quality assurance fee	14,402,947	15,525,774
California Health Foundation and Trust payment	<u>185,669</u>	<u>71,723</u>
Total HQAF expense	<u>14,588,616</u>	<u>15,597,497</u>
HQAF net benefit	<u>\$ 24,758,731</u>	<u>\$ 13,576,523</u>

13. COMMITMENTS AND CONTINGENCIES

The Hospital leases buildings and equipment under operating leases expiring in various years.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

13. COMMITMENTS AND CONTINGENCIES (continued)

Minimum future rental payments to nonrelated parties under noncancelable operating leases with remaining terms in excess of one year as of November 30, 2017, are as follows:

<u>Year ending November 30,</u>	
2018	\$ 536,729
2019	283,858
2020	103,728
2021	<u>6,760</u>
	<u>\$ 931,075</u>

Related party operating leases

The Hospital leases buildings and equipment under operating leases expiring in various years from related parties.

Minimum future rental payments to related parties under noncancelable operating leases with remaining terms in excess of one year as of November 30, 2017, are as follows:

<u>Year ending November 30,</u>	
2018	\$ 3,864,190
2019	3,151,810
2020	3,188,015
2021	3,224,944
2022	3,262,612
Thereafter	<u>8,756,420</u>
	<u>\$ 25,447,991</u>

Malpractice coverage

The Hospital maintains a claims-made medical malpractice insurance policy whereby the Hospital has contracted for a self-insured retention amounting to \$50,000 per claim. This policy includes a liability limit for each occurrence of \$5,000,000 and an aggregate limit for all payments of \$15,000,000. The policy expires on February 1, 2019. A claims-made insurance policy covers only malpractice claims reported to the insurance carrier during the policy term, regardless of the date of the incident giving rise to the claim. Tail coverage insurance is designed to cover malpractice claims incurred before, but reported after, cancellation or expiration of a claims-made insurance policy. No tail coverage insurance has been purchased. The Hospital was not aware of any incurred-but-not-reported claims that existed as of November 30, 2017. Furthermore, the Hospital maintains insurance coverage and has the ability to continue this coverage; therefore, no contingent liability related to incurred-but-not-reported claims has been accrued.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

13. COMMITMENTS AND CONTINGENCIES (continued)

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on the Corporation's future financial position or results of operations.

Regulatory environment

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. The Hospital is subject to routine surveys and reviews by federal, state, and local regulatory authorities. The Hospital has also received inquiries from health care regulatory authorities regarding its compliance with laws and regulations. Although the Hospital's management is not aware of any violations of laws and regulations, it has received corrective action requests as a result of completed and ongoing surveys from applicable regulatory authorities. Management continually works in a timely manner to implement operational changes and procedures to address all corrective action requests from regulatory authorities. Breaches of these laws and regulations and non-compliance with survey corrective action requests could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Affordable Care Act

In March 2010, the federal Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010 (the "Act") were signed into law, and in September 2010 a package of California state laws were enacted implementing various provisions of the federal laws. This comprehensive legislation is intended to expand health insurance coverage and increase its affordability, promote quality and cost efficiency in health care delivery, and generate budgetary savings in the Medicare and Medicaid programs.

The current Administration and Congressional Leaders have expressed their intentions to repeal and replace the Act. At this time the Hospital is unable to predict if the Act will be modified, repealed, or replaced, and what impact that may have on the Hospital's future revenues and operations. Changes to the Act could have a significant effect on the way the Hospital conducts business.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

14. RELATED PARTY

The Hospital conducts transactions with related parties as part of the operations of the Hospital. OroHealth Corporation is a not-for-profit entity that provides management services for the Hospital. OroLake Corporation is a for-profit subsidiary of OroHealth Corporation. Oroville Sports Club, LLC, is a for-profit entity that provides facilities usage to the Hospital and is owned 81% by the CEO of the Hospital. Oroville Medical Complex, LLC is a for-profit entity which provides office space for Hospital-based physicians. Dove's Landing, LLC is a for-profit commercial real estate entity and is owned 60% by the CEO of the Hospital.

Significant transactions with related parties are as follows:

		<u>2017</u>	<u>2016</u>
Due to affiliates			
OroHealth Corporation - administrative expenses		\$ 3,923,798	\$ 3,068,104
OroLake Corporation - operating expenses		<u>(10,043)</u>	<u>(9,218)</u>
		<u>\$ 3,913,755</u>	<u>\$ 3,058,886</u>
<u>Related Party</u>	<u>Description</u>	<u>2017</u>	<u>2016</u>
Revenues			
Oroville Medical Complex, LLC	Property management and housekeeping	<u>\$ 210,941</u>	<u>\$ 202,170</u>
Expenses			
OroHealth Corporation	Rent	\$ 349,087	\$ 318,522
OroHealth Corporation	Management fees	3,470,962	3,426,498
Oroville Sports Club, LLC	Membership and rent	310,953	148,984
Oroville Medical Complex, LLC	Rent	1,829,358	1,749,493
Dove's Landing, LLC	Rent	<u>1,196,310</u>	<u>1,123,638</u>
		<u>\$ 7,156,670</u>	<u>\$ 6,767,135</u>

15. PENSION PLAN

The Hospital has a profit sharing plan covering substantially all employees of the Hospital. Contributions to the plan are made at the discretion of the Corporation, and the plan does not require annual contributions. The Corporation authorized and accrued a contribution for the plan years ended November 31, 2017 and 2016, for approximately \$1,950,000 and \$1,800,000, respectively.

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

16. CONCENTRATIONS

Credit risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

The mix of receivables from patients and third-party payors was as follows:

	2017	2016
Medicare	38.00 %	33.00 %
Medi-Cal	37.00	40.00
Patient and private insurance	3.00	5.00
Other contracted payors	22.00	22.00
	100.00 %	100.00 %

Source of supply labor

The Hospital employs approximately 1,600 employees. Approximately 65% of the employees are governed by collective bargaining agreements with California Nurses Association and The United Steelworkers. The California Nurses Association represents all registered nurses which accounts for approximately 23% of the Hospital's workforce. The United Steelworkers represent the Hospital's Business office, clinic, service and technical staff; which accounts for approximately 2%, 3%, 29%, and 8% of the workforce, respectively. The Hospital's bargaining agreement with California Nurses Association expires March 1, 2019. The bargaining agreements with The United Steelworkers expire November 30, 2017.

17. FUNCTIONAL EXPENSES

The Hospital provides general health care services to residents within its geographic location.

Expenses related to providing these services are as follows:

	2017	2016
Health care services	\$ 224,451,801	\$ 194,454,188
General and administrative	47,558,532	47,095,248
	\$ 272,010,333	\$ 241,549,436

Oroville Hospital and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2017 and 2016

18. JOINT POWERS AGREEMENTS

The Hospital participates in a joint venture under a joint powers agreement (JPA) with the Association of California Healthcare Districts, Inc. - ALPHA FUND (the Fund). The Fund arranges for and provides certain member health care entities with pooled workers' compensation self-insurance.

The Fund is independently accountable for its own fiscal matters. Each participant pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA. The Hospital's share of year-end assets, liabilities, or fund equity has not been calculated by the Fund. Financial statements can be requested from the Fund.

19. SELF-INSURANCE OF HEALTH CARE BENEFITS

The Hospital provides a self-insurance program for the Hospital's employee health and dental insurance benefits. An estimate of amounts due and payable on existing claims for which the Hospital is self-insured is included in current liabilities and totaled \$1,786,893 and \$1,102,069 as of November 30, 2017 and 2016, respectively.

The Hospital has self-insurers' reinsurance agreements with an insurance company for specific stop-loss limits for full-time covered employees of \$275,000 maximum deductible, unlimited calendar-year maximum, and an unlimited maximum lifetime benefit.

20. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 17, 2018, the date on which the financial statements were available to be issued. No subsequent events have occurred other than as described below that would have a material impact on the presentation of the Hospital's financial statements.

In March 2018, the Hospital submitted a request for proposal to refinance its 2012 Series A Revenue Bonds. If approved, this would provide the Hospital with approximately \$10,000,000 in additional bond proceeds to fund certain capital projects.

SUPPLEMENTARY INFORMATION

Oroville Hospital and Subsidiaries
Consolidating Statement of Financial Position
November 30, 2017

ASSETS

	Oroville Hospital	Oroville Hospital Post Acute Care, LLC	OHPAC Partners, LLC	Oroville Medical Partners, LLC	Oroville Solar Partners, LLC	Eliminating Entries	Total
Current assets							
Cash and cash equivalents	\$ 6,180,674	\$ 88,557	\$ 311,561	\$ 80,997	\$ 70	\$ -	\$ 6,661,859
Assets limited as to use	680,351	-	-	-	-	-	680,351
Patient accounts receivable, net of allowance for doubtful accounts	27,347,971	3,515,731	-	-	-	-	30,863,702
Supplemental funding receivables	47,340,775	-	-	-	-	-	47,340,775
Other receivables	985,281	4,076	-	-	-	-	989,357
Due from affiliates	1,589,420	-	-	-	-	(1,589,420)	-
Inventory	2,300,981	-	-	-	-	-	2,300,981
Prepaid expenses	1,064,020	34,833	-	-	-	-	1,098,853
Current portion of notes receivable	459,008	-	-	-	-	-	459,008
Investments, marketable securities	28,401,131	-	-	-	-	-	28,401,131
Total current assets	<u>116,349,612</u>	<u>3,643,197</u>	<u>311,561</u>	<u>80,997</u>	<u>70</u>	<u>(1,589,420)</u>	<u>118,796,017</u>
Property and equipment, net	<u>41,008,970</u>	<u>266,079</u>	<u>12,806,565</u>	<u>1,947,283</u>	<u>235,066</u>	<u>-</u>	<u>56,263,963</u>
Other assets							
Notes receivable, net of current portion	3,515,374	-	-	-	-	-	3,515,374
Investment in Comp-OH, LLC	613,681	-	-	-	-	-	613,681
Investment in Oroville Hospital Post Acute Care	289,911	-	-	-	-	(289,911)	-
Investment in OHPAC Partners, LLC	2,000,000	-	-	-	-	(2,000,000)	-
Investment in Oroville Medical Partners, LLC	303,705	-	-	-	-	(303,705)	-
Investment in Solar Partners, LLC	140,623	-	-	-	-	(140,623)	-
Total other assets	<u>6,863,294</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,734,239)</u>	<u>4,129,055</u>
Total assets	<u>\$ 164,221,876</u>	<u>\$ 3,909,276</u>	<u>\$ 13,118,126</u>	<u>\$ 2,028,280</u>	<u>\$ 235,136</u>	<u>\$ (4,323,659)</u>	<u>\$ 179,189,035</u>

See accompanying independent auditor's report.

Oroville Hospital and Subsidiaries
Consolidating Statement of Financial Position
November 30, 2017

LIABILITIES AND NET ASSETS

	Oroville Hospital	Oroville Hospital Post Acute Care, LLC	OHPAC Partners, LLC	Oroville Medical Partners, LLC	Oroville Solar Partners, LLC	Eliminating Entries	Total
Current liabilities							
Current portion of long-term debt	\$ 3,167,527	\$ -	\$ 647,666	\$ 33,251	\$ -	\$ -	\$ 3,848,444
Current portion of capital lease obligations	3,137,394	-	-	-	-	-	3,137,394
Accounts payable	11,866,029	777,042	-	-	-	-	12,643,071
Supplemental funding payable	16,924,217	-	-	-	-	-	16,924,217
Estimated Medicare and Medi-Cal settlements	44,020	21,560	-	-	-	-	65,580
Due to affiliates	3,930,164	2,548,115	-	-	249	(1,589,420)	4,889,108
Accrued payroll and payroll taxes	6,002,688	579,748	-	-	-	-	6,582,436
Accrued vacation	7,604,149	145,551	-	-	-	-	7,749,700
Accrued professional fees	3,310,584	-	-	-	-	-	3,310,584
Accrued insurance	1,973,923	-	-	-	-	-	1,973,923
Accrued pension contribution	1,948,894	-	-	-	-	-	1,948,894
Other accrued liabilities	1,136,140	14,873	-	500	-	-	1,151,513
Total current liabilities	<u>61,045,729</u>	<u>4,086,889</u>	<u>647,666</u>	<u>33,751</u>	<u>249</u>	<u>(1,589,420)</u>	<u>64,224,864</u>
Long-term liabilities							
Long-term debt, net of current portion	16,301,583	-	8,221,720	1,319,934	-	-	25,843,237
Capital lease obligations, net of current portion	7,676,312	-	-	-	-	-	7,676,312
Total long-term liabilities	<u>23,977,895</u>	<u>-</u>	<u>8,221,720</u>	<u>1,319,934</u>	<u>-</u>	<u>-</u>	<u>33,519,549</u>
Total liabilities	<u>85,023,624</u>	<u>4,086,889</u>	<u>8,869,386</u>	<u>1,353,685</u>	<u>249</u>	<u>(1,589,420)</u>	<u>97,744,413</u>
Net assets							
Unrestricted							
Unrestricted	79,198,252	(177,613)	2,177,857	344,044	140,481	(2,734,239)	78,948,782
Non-controlling interest	-	-	2,070,883	330,551	94,406	-	2,495,840
Total unrestricted net assets	<u>79,198,252</u>	<u>(177,613)</u>	<u>4,248,740</u>	<u>674,595</u>	<u>234,887</u>	<u>(2,734,239)</u>	<u>81,444,622</u>
Total liabilities and net assets	<u>\$ 164,221,876</u>	<u>\$ 3,909,276</u>	<u>\$ 13,118,126</u>	<u>\$ 2,028,280</u>	<u>\$ 235,136</u>	<u>\$ (4,323,659)</u>	<u>\$ 179,189,035</u>

See accompanying independent auditor's report.

Oroville Hospital and Subsidiaries
Consolidating Statement of Activities
For the Year Ended November 30, 2017

	Oroville Hospital	Oroville Hospital Post Acute Care, LLC	OHPAC Partners, LLC	Oroville Medical Partners, LLC	Oroville Solar Partners, LLC	Eliminating Entries	Total
Revenues, gains and other support							
Net patient service revenue, net	\$ 269,989,820	\$ 14,213,639	\$ -	\$ -	\$ -	\$ -	\$ 284,203,459
Other revenue	2,459,085	68,967	793,977	235,022	-	(845,067)	2,711,984
Total revenues, gains and other support	<u>272,448,905</u>	<u>14,282,606</u>	<u>793,977</u>	<u>235,022</u>	<u>-</u>	<u>(845,067)</u>	<u>286,915,443</u>
Operating expenses							
Salaries and wages	88,808,513	5,758,080	-	-	-	(94,888)	94,471,705
Employee benefits	38,269,395	1,099,778	-	-	-	-	39,369,173
Legal and professional fees	47,619,267	107,678	6,000	-	-	-	47,732,945
Supplies	32,293,924	1,390,617	229	245	229	-	33,685,244
Purchased services	14,443,494	2,710,241	-	9,922	-	-	17,163,657
Depreciation	6,969,581	245,930	193,435	37,717	-	-	7,446,663
Rent	5,059,813	1,582,073	-	-	-	(750,179)	5,891,707
Insurance	2,097,666	239,780	3,927	-	-	-	2,341,373
Interest expense	1,158,580	63,608	201,639	51,311	-	-	1,475,138
Utilities	1,651,890	320,037	-	24,322	-	-	1,996,249
Hospital fee program payments	14,588,616	-	-	-	-	-	14,588,616
Other expenses	4,770,054	1,005,342	40,007	32,410	50	-	5,847,863
Total operating expenses	<u>257,730,793</u>	<u>14,523,164</u>	<u>445,237</u>	<u>155,927</u>	<u>279</u>	<u>845,067</u>	<u>272,010,333</u>
Change in net assets from operations	<u>14,718,112</u>	<u>(240,558)</u>	<u>348,740</u>	<u>79,095</u>	<u>(279)</u>	<u>-</u>	<u>14,905,110</u>
Non operating income							
Non operating income	1,154,812	-	-	-	-	-	1,154,812
Non-operating income	13,433	1,021	-	-	-	-	14,454
Total non operating income	<u>1,168,245</u>	<u>1,021</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,169,266</u>
Change in net assets	15,886,357	(239,537)	348,740	79,095	(279)	-	16,074,376
Net assets, beginning of year	63,311,895	289,911	-	-	7,000	(296,911)	63,311,895
Member contributions	-	-	1,900,000	291,795	94,543	-	2,286,338
Hospital contributions	-	-	2,000,000	303,705	133,623	(2,437,328)	-
OHPAC net deficit assumed	-	(227,987)	-	-	-	-	(227,987)
Net assets, end of year	<u>\$ 79,198,252</u>	<u>\$ (177,613)</u>	<u>\$ 4,248,740</u>	<u>\$ 674,595</u>	<u>\$ 234,887</u>	<u>\$ (2,734,239)</u>	<u>\$ 81,444,622</u>

See accompanying independent auditor's report.