

Oroville Hospital

Consolidated Financial Statements

November 30, 2018 and 2017



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Oroville Hospital
Oroville, California

We have audited the accompanying consolidated financial statements of Oroville Hospital (the "Hospital"), which comprise the consolidated statements of financial position as of November 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years 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 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 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 as of November 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years 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.

Supplementary Information

The nonaccounting information on page 31, which is the responsibility of management, is of a nonaccounting nature and has not been subjected to the auditing procedures applied in the audit of the financial statements. Accordingly, we do not express an opinion or provide any assurance on it.



Armanino^{LLP}
San Ramon, California

April 11, 2019

Oroville Hospital
Consolidated Statements of Financial Position
November 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	\$ 27,472,161	\$ 6,661,859
Assets limited as to use	5,591,065	680,351
Patient accounts receivable, net of allowance for doubtful accounts of \$87,604,910 and \$84,660,793 in 2018 and 2017, respectively	34,621,959	30,863,702
Supplemental funding receivables	35,236,426	47,340,775
Estimated Medicare and Medi-Cal settlements	453,794	-
Other receivables	646,897	973,842
Inventory	2,889,826	2,300,981
Prepaid expenses and other current assets	1,343,686	1,098,853
Current portion of notes receivable	515,962	459,008
Investments, marketable securities	19,613,199	28,401,131
Total current assets	128,384,975	118,780,502
 Property and equipment, net	 66,317,691	 56,263,963
 Other assets		
Notes receivable, net of current portion	4,103,736	3,515,374
Investment in Comp-OH, LLC	861,995	613,681
Total other assets	4,965,731	4,129,055
 Total assets	 \$ 199,668,397	 \$ 179,173,520

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

Oroville Hospital
Consolidated Statements of Financial Position
November 30, 2018 and 2017

	2018	2017
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term debt	\$ 3,141,670	\$ 3,848,444
Current portion of capital lease obligations	3,701,587	3,137,394
Accounts payable	16,449,410	12,643,071
Supplemental funding payable	10,450,161	16,924,217
Estimated Medicare and Medi-Cal settlements	-	65,580
Due to related parties	4,308,957	4,873,593
Accrued payroll and payroll taxes	4,325,535	6,488,126
Accrued vacation	8,540,249	7,749,700
Accrued professional fees	3,745,571	3,310,584
Accrued insurance	1,612,916	1,984,265
Accrued pension contribution	2,370,430	1,948,894
Other accrued liabilities	704,002	1,235,481
Total current liabilities	59,350,488	64,209,349
Long-term liabilities		
Long-term debt, net of current portion	33,502,926	25,843,237
Capital lease obligations, net of current portion	9,659,143	7,676,312
Total long-term liabilities	43,162,069	33,519,549
Total liabilities	102,512,557	97,728,898
Net assets		
Unrestricted		
Unrestricted	94,488,059	78,948,782
Non-controlling interest	2,667,781	2,495,840
Total unrestricted net assets	97,155,840	81,444,622
Total liabilities and net assets	\$ 199,668,397	\$ 179,173,520

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

Oroville Hospital
Consolidated Statements of Activities
For the Years Ended November 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues, gains and other support		
Net patient service revenue net of provision for bad debts of \$10,892,329 in 2018, and \$7,463,950 in 2017	\$316,832,461	\$284,203,459
Other revenue	<u>2,225,146</u>	<u>2,711,984</u>
Total revenues, gains and other support	<u>319,057,607</u>	<u>286,915,443</u>
Operating expenses		
Salaries and wages	103,320,080	94,471,705
Employee benefits	43,139,842	39,369,173
Legal and professional fees	59,630,364	47,732,945
Supplies	37,553,116	33,685,244
Purchased services	17,567,515	17,163,657
Depreciation	8,186,533	7,446,663
Rent	5,595,229	5,891,707
Insurance	2,377,721	2,341,373
Interest expense	2,187,657	1,475,138
Utilities	2,175,576	1,996,249
Hospital fee program payments	16,218,743	14,588,616
Other expenses	<u>6,457,559</u>	<u>5,847,863</u>
Total operating expenses	<u>304,409,935</u>	<u>272,010,333</u>
Change in net assets from operations	<u>14,647,672</u>	<u>14,905,110</u>
Non-operating income		
Investment income	980,167	1,154,812
Other income (loss)	<u>250,561</u>	<u>14,454</u>
Total non-operating income	<u>1,230,728</u>	<u>1,169,266</u>
Change in net assets	15,878,400	16,074,376
Unrestricted net assets, beginning of year	81,444,622	63,311,895
Contributions from non-controlling ownership interests	23,040	2,286,338
Capital distributions to non-controlling interests	(190,222)	-
OHPAC net deficit assumed	<u>-</u>	<u>(227,987)</u>
Unrestricted net assets, end of year	<u>\$ 97,155,840</u>	<u>\$ 81,444,622</u>

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

Oroville Hospital
Consolidated Statements of Cash Flows
For the Years Ended November 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 15,878,400	\$ 16,074,376
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	8,186,533	7,446,663
Amortization of debt issuance costs	470,125	55,408
Realized and unrealized gains on marketable securities	(230,290)	(116,332)
Gain on disposal of property and equipment	(49,798)	-
Realized (gain) loss on investments, other	(248,314)	158,640
Notes receivable forgiven	177,888	122,801
OHPAC net deficit assumed	-	(227,987)
Patient accounts receivable, net	(3,758,257)	(7,424,813)
Supplemental funding receivable	12,104,349	(34,323,404)
Other receivables	326,945	245,237
Inventory	(588,845)	(225,962)
Prepaid expenses	(244,833)	170,047
Accounts payable and other accrued liabilities	2,387,992	4,764,344
Supplemental funding payable	(6,474,056)	8,466,623
Estimated Medicare and Medi-Cal settlements	(519,374)	(77,224)
Due to affiliates	(564,636)	1,830,222
Net cash provided by (used in) operating activities	26,853,829	(3,061,361)
Cash flows from investing activities		
Purchase of property and equipment	(12,327,670)	(20,729,503)
Proceeds from sale of property and equipment	77,613	-
Payments received on notes receivable	918,396	266,508
Cash loaned under notes receivable	(1,741,600)	(3,752,573)
Purchase of investments, marketable securities	(9,719,973)	(15,011,012)
Sales of investments, marketable securities	18,738,195	16,512,108
Net cash used in investing activities	(4,055,039)	(22,714,472)
Cash flows from financing activities		
Borrowings under long-term debt obligations	22,131,090	13,543,357
Principal payments on long-term debt and capital leases	(19,041,682)	(6,303,782)
Net change in assets limited to use	(4,910,714)	(16,351)
Capital contributions from non-controlling ownership interests	23,040	2,286,338
Capital distributions to noncontrolling interests	(190,222)	-
Net cash provided by (used in) financing activities	(1,988,488)	9,509,562
Net increase (decrease) in cash and cash equivalents	20,810,302	(16,266,271)
Cash and cash equivalents, beginning of year	6,661,859	22,928,130
Cash and cash equivalents, end of year	\$ 27,472,161	\$ 6,661,859

Supplemental disclosure of cash flow information

Cash paid during the year for interest	\$ 2,196,484	\$ 1,474,067
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Supplemental schedule of non-cash investing and financing activities

Acquisition of property and equipment with capital lease financing	\$ 5,940,406	\$ 4,888,182
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The accompanying notes are an integral part of these consolidated financial statements.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

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. 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, manage, 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, in 2017 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. During 2018, the Hospital had a return of capital in the amount of \$23,040, in order to maintain its 50% ownership.

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
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

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, 2018. No events occurred in the limited liability companies during the months of December 2017 or 2018 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.

Reclassifications

Certain reclassifications have been made to the 2017 information to conform to the current year presentation. These reclassifications had no effect on the previously reported net assets or change in net assets.

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
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

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, 2018 and 2017.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

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
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

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.

Change in net assets from operations

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 the change in net assets from operations. Non-operating income, which is excluded from the change in net assets from operations and consistent with industry practice, primarily includes the unrealized gains and losses on investments other than trading securities or investments accounted for using the equity method.

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
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

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, 2018 and 2017, 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 required LLC fees based on total annual income which are reported as a component of operating expenses for the years ending November 30, 2018 and 2017.

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, 2018, the Hospital recorded a \$446,873 receivable from the Department of Health Care Services ("DHS") for supplemental funding due for the period from October 1, 2017 through November 30, 2018 based upon funding information received from DHS. At November 30, 2017, the Hospital recorded a receivable of \$2,370,874 from DHS for supplemental funding due for the period from June 1, 2016 through November 30, 2017.

HQAF Program: At November 30, 2018 and 2017, the Hospital has a receivable for expected HQAF payments to be received of \$34,789,553 and \$44,969,901, respectively. At November 30, 2018 and 2017, the Hospital has a payable for expected HQAF payments to be made of \$10,450,161 and \$16,924,217, 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. 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 \$10,965,000 and \$16,400,000 in 2018 and 2017, respectively.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

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, 2015. Medicare charges, measured at established rates, approximated \$434,489,813 and \$377,651,764 in 2018 and 2017, respectively. The difference between established rates and net patient service revenue approximated \$309,480,398 and \$259,840,487 in 2018 and 2017, 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 charges 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, 2017. 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 \$335,026,389 and \$311,851,761 in 2018 and 2017, respectively. The difference between established rates and net patient service revenue approximated \$243,694,326 and \$228,265,968 in 2018 and 2017, respectively.

Gross revenue from the Medicare and Medi-Cal programs accounted for approximately 47% and 36% (2018) and 46% and 38% (2017), 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
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Assets limited as to use				
Money market funds	\$ 5,591,065	\$ -	\$ -	\$ 5,591,065
	<u>5,591,065</u>	<u>-</u>	<u>-</u>	<u>5,591,065</u>
Investments, marketable securities				
Money market funds	408,036	-	-	408,036
Mutual funds	5,716,721	-	-	5,716,721
Corporate bonds	-	6,541,004	-	6,541,004
U.S. Government securities	-	6,947,438	-	6,947,438
	<u>6,124,757</u>	<u>13,488,442</u>	<u>-</u>	<u>19,613,199</u>
	<u>\$ 11,715,822</u>	<u>\$ 13,488,442</u>	<u>\$ -</u>	<u>\$ 25,204,264</u>

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

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, 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	409,406	-	-	409,406
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>5,790,084</u>	<u>22,611,047</u>	<u>-</u>	<u>28,401,131</u>
	<u>\$ 6,470,435</u>	<u>\$ 22,611,047</u>	<u>\$ -</u>	<u>\$ 29,081,482</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>2018</u>	<u>2017</u>
Land and improvements	\$ 6,054,541	\$ 5,694,494
Buildings and improvements	52,983,793	49,717,101
Equipment	84,925,813	75,965,052
Construction in progress	<u>6,294,320</u>	<u>762,889</u>
	150,258,467	132,139,536
Accumulated depreciation	<u>(83,940,776)</u>	<u>(75,875,573)</u>
	<u>\$ 66,317,691</u>	<u>\$ 56,263,963</u>

Total depreciation and amortization expenses amounted to \$8,186,533 and \$7,446,663 for the years ended November 30, 2018 and 2017, respectively. Accumulated amortization for equipment under capital lease obligations was \$11,296,006 and \$9,841,427 at November 30, 2018 and 2017, respectively.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

7. BONDS PAYABLE

Bonds payable are detailed as follows:

	2018	2017
City of Oroville Insured Hospital Revenue Bonds	\$ 19,600,000	\$ 10,310,000
Less unamortized debt issuance costs	(341,690)	(455,497)
Current portion	(860,000)	(1,020,000)
	\$ 18,398,310	\$ 8,834,503

The future maturities of the bond payable are as follows:

Year ending November 30,

2019	\$ 860,000
2020	725,000
2021	750,000
2022	775,000
2023	800,000
Thereafter	15,690,000
	19,600,000
Less: unamortized debt issuance costs	(341,690)
Bonds payable, net of debt issuance costs	19,258,310
Current portion	(860,000)
	\$ 18,398,310

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. In June 2018, the 2012 Variable Rate Demand Hospital Revenue Bonds were refunded and \$19,600,000 of City of Oroville Hospital Revenue Bonds, Series 2018, were issued. The 2018 bond funds were used to refund the 2012 bonds and will also be used to finance the acquisition and construction of certain improvements to the Hospital, and pay the costs of issuance of the bonds. The 2018 bonds are secured by a letter of credit issued by MUFG Union Bank. The 2018 bonds bear interest at a rate of 3.29% and mature on April 1, 2038. Principal maturities for the bonds, aggregating \$19,600,000, range from \$725,000 to \$1,300,000 and are due annually on April 1 through 2038.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

7. BONDS PAYABLE (continued)

Under the terms of the Reimbursement Agreement with MUFG Union Bank dated June 21, 2018, 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 0.75. As of November 30, 2018 and 2017, the Hospital was in compliance with all covenants.

8. CAPITAL LEASE OBLIGATIONS

Capital lease obligations have varying rates of interest from 1.6% to 6.8%. Obligations are collateralized by leased equipment with amortized costs of \$15,781,837 and \$9,841,427 at November 30, 2018 and 2017, respectively. Leases expire in various years through 2024.

Capital lease assets consist of the following:

	2018	2017
Current portion of capital lease obligations	\$ 3,701,587	\$ 3,137,394
Capital lease obligations, net of current portion	9,659,143	7,676,312
	\$ 13,360,730	\$ 10,813,706

Future maturities of capital lease obligations are as follows:

Year ending November 30,	
2019	\$ 4,156,522
2020	3,639,412
2021	2,738,128
2022	1,972,734
2023	1,278,012
Thereafter	680,657
	14,465,465
Less: imputed interest	(1,104,735)
	\$ 13,360,730

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

9. NOTES PAYABLE

Notes payable are detailed as follows:

	<u>2018</u>	<u>2017</u>
Note payable to First Citizens Bank and Trust company in 60 monthly installments of \$38,804, including interest of 3.25% through August 2018. The note is secured by medical equipment.	\$ -	\$ 352,630
Note payable to First Citizens Bank and Trust Company in 84 monthly installments of \$6,734, including interest of 3.41% through September 2020. The note is secured by medical equipment.	143,406	211,817
Note payable to First Citizens Bank and Trust Company in monthly installments of \$23,831, including interest of 3.50% 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, 2018.	446,337	711,633
Note payable to Comerica Bank in monthly installments of \$77,380, plus interest based on a variable rate through May 2022. The note was repaid during the year.	-	4,101,219
Note payable to First Citizens Bank and Trust Company in 84 monthly installments of \$3,586, including interest of 3.95% through November 2022. The note is secured by real estate.	529,925	553,042
Note payable to First Citizens Bank and Trust Company in 84 monthly installments of \$1,824, including interest of 3.67% through February 2023. The note is secured by real estate.	276,853	288,357
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.	49,257	61,794
Note payable to First Citizens Bank and Trust Company in 84 monthly installments of \$1,740 plus one balloon payment, including interest of 3.45% through September 2023. The note is secured by real estate.	274,878	286,827

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

9. NOTES PAYABLE (continued)

	<u>2018</u>	<u>2017</u>
Note payable to First Citizens Bank and Trust Company in 72 monthly installments of \$45,006, including interest of 3.5% through May 2024. The note is secured by equipment.	2,809,167	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.	109,948	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 real estate.	8,601,546	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 real estate.	689,779	708,798
Note payable to First Citizens Bank and Trust Company in 83 monthly installments of \$3,570 plus one balloon payment of \$545,656, including interest of 4.10% through April 2024. The note is secured by real estate.	633,130	650,587
Note payable to Trisha L. Hopps and Pamela Serafine in 120 monthly installments of \$2,768, including interest of 5.25% through June 2028. The note is secured by equipment.	405,903	-
Revolving loan with MUFG Union Bank with a maximum borrowing limit of \$2,000,000. Interest on the loan accrues at a variable rate through the maturity date of July 2019. The variable rate is one month LIBOR plus 1.5%.	935,000	-
Note payable to Toyota Financial Services in 60 monthly installments of \$444, including interest of 0.92% through October 2023. The note is secured by a motor vehicle.	25,584	-
Note payable to Toyota Financial Services in 60 monthly installments of \$467, including interest of 0.00% through October 2023. The note is secured by a motor vehicle.	27,577	-

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

9. NOTES PAYABLE (continued)

	2018	2017
Note payable to Rabobank in 120 monthly installments of \$6,065, including interest of 5% through October 2028. The note is secured by real estate.	1,028,370	-
Note payable to Rabobank in 120 monthly installments of \$1,967, including interest of 0.92% through October 2028. The note is secured by real estate.	333,471	-
Note payable to GE Healthcare Capital in 72 monthly installments of \$1,837, including interest of 4.35% through November 2024. The note is secured by equipment.	116,196	-
	17,436,327	19,894,578
Less unamortized debt issuance costs	(50,041)	(57,400)
	17,386,286	19,837,178
Current portion	(2,281,670)	(2,828,444)
	\$ 15,104,616	\$ 17,008,734

The future maturities of the notes payable are as follows:

Year ending November 30,

2019	\$ 2,281,670
2020	1,240,102
2021	1,040,125
2022	1,508,967
2023	1,471,973
Thereafter	9,893,490
	\$ 17,436,327

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 were 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 the premium was amortized over the five-year effective period of the cap and is included in prepaid expenses on the consolidated balance sheet for the year ended November 30, 2017. For the year ended November 30, 2017, the effective variable interest was below the cap strike rate of 2%. There were no derivative instruments or hedging activities for the year ended November 30, 2018.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

11. LINE OF CREDIT

The Hospital had a line of credit with Commerce Bank for the Commerce Bank Payable program in the amount of \$750,000 as of November 30, 2018 and \$600,000 as of November 30, 2017. The line of credit is secured partially with a deposit. As of November 30, 2018 and 2017, there was an outstanding balance included in accounts payable of \$304,820 and \$133,296, 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.

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 Medi-Cal 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 Medi-Cal Supplemental fee-for-service and Medi-Cal 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 \$34,892,721 and \$24,758,731 as of November 30, 2018 and 2017, respectively.

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

	<u>2018</u>	<u>2017</u>
Medi-Cal Fee-for-Service program revenue	\$ 35,976,688	\$ 32,858,993
Managed care revenue	<u>15,134,776</u>	<u>6,488,354</u>
Total HQAF revenue	<u>51,111,464</u>	<u>39,347,347</u>
Quality assurance fee	15,918,855	14,402,947
California Health Foundation and Trust payment	<u>299,888</u>	<u>185,669</u>
Total HQAF expense	<u>16,218,743</u>	<u>14,588,616</u>
HQAF net benefit	<u>\$ 34,892,721</u>	<u>\$ 24,758,731</u>

13. COMMITMENTS AND CONTINGENCIES

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

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

13. COMMITMENTS AND CONTINGENCIES (continued)

Minimum future rental payments to non-related parties under non-cancelable operating leases with remaining terms in excess of one year as of November 30, 2018, are as follows:

<u>Year ending November 30,</u>	
2019	\$ 773,134
2020	727,389
2021	650,785
2022	590,852
2023	<u>160,688</u>
	<u>\$ 2,902,848</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 non-cancelable operating leases with remaining terms in excess of one year as of November 30, 2018, are as follows:

<u>Year ending November 30,</u>	
2019	\$ 3,741,082
2020	3,560,083
2021	3,631,285
2022	3,703,911
2023	3,678,902
Thereafter	<u>14,549,261</u>
	<u>\$ 32,864,524</u>

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

13. COMMITMENTS AND CONTINGENCIES (continued)

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, 2020. 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, 2018. 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.

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.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

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:

		2018	2017
Due to affiliates			
	OroHealth Corporation - administrative expenses	\$ 4,062,453	\$ 3,923,798
	OroLake Corporation - operating expenses	<u>(14,568)</u>	<u>(10,043)</u>
		<u>\$ 4,047,885</u>	<u>\$ 3,913,755</u>
Related Party	Description	2018	2017
Revenues			
Oroville Medical Complex, LLC	Property management and housekeeping	<u>\$ 208,551</u>	<u>\$ 210,941</u>
Expenses			
OroHealth Corporation	Rent	\$ 309,193	\$ 349,087
OroHealth Corporation	Management fees	3,666,600	3,470,962
Oroville Sports Club, LLC	Membership and rent	327,164	310,953
Oroville Medical Complex, LLC	Rent	2,000,032	1,829,358
Dove's Landing, LLC	Rent	<u>1,209,524</u>	<u>1,196,310</u>
		<u>\$ 7,512,513</u>	<u>\$ 7,156,670</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 30, 2018 and 2017, for approximately \$2,370,000 and \$1,950,000, respectively.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

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:

	<u>2018</u>	<u>2017</u>
Medicare	37.00 %	34.00 %
Medi-Cal	37.00	44.00
Patient and private insurance	20.00	18.00
Other contracted payors	<u>6.00</u>	<u>4.00</u>
	<u>100.00 %</u>	<u>100.00 %</u>

Source of supply labor

The Hospital employs approximately 1,730 employees. Approximately 64% 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 Hospital's bargaining agreement with California Nurses Association expired April 1, 2019. The Hospital and California Nurses Association are currently in contract negotiations. The United Steelworkers represent the Hospital's Business office, clinic, service and technical staff; which accounts for approximately 2%, 2%, 29%, and 8% of the workforce, respectively. The bargaining agreements with The United Steelworkers expired November 30, 2017. The Hospital and United Steelworkers are currently in contract negotiations.

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:

	<u>2018</u>	<u>2017</u>
Health care services	\$ 251,512,186	\$ 224,451,801
General and administrative	<u>52,897,749</u>	<u>47,558,532</u>
	<u>\$ 304,409,935</u>	<u>\$ 272,010,333</u>

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2018 and 2017

18. JOINT POWERS AGREEMENTS

The Hospital participates in a joint venture under a joint powers agreement (JPA) with the BETA Healthcare Group (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 \$1,524,228 and \$1,786,893 as of November 30, 2018 and 2017, 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 11, 2019, 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 November 2018, the City of Oroville approved the issuance of revenue bonds for the benefit of the Hospital in an aggregate principal amount not to exceed \$285,000,000. In February 2019, Oroville Hospital issued \$195,630,000 principal amount of City of Oroville Revenue Bonds (Oroville Hospital) Series 2019. The proceeds from the sale of the bonds will be used towards the construction of the Hospital's new tower that will be located on the main Hospital campus. The new tower will include two floors of Medical/Surgical units, a 24-bed Intensive Care Unit, a Labor and Delivery Center, Ambulatory Care Service and other support services. The tower project is expected to be substantially completed 36 months after the start of construction in April 2019. The cost of the project is expected to be \$178.1 million.

SUPPLEMENTARY INFORMATION

Oroville Hospital
Consolidating Statement of Financial Position
November 30, 2018

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	\$ 26,027,822	\$ 617,789	\$ 748,424	\$ 71,480	\$ 6,646	\$ -	\$ 27,472,161
Assets limited as to use	5,591,065	-	-	-	-	-	5,591,065
Patient accounts receivable, net of allowance for doubtful accounts	31,427,867	3,194,092	-	-	-	-	34,621,959
Supplemental funding receivables	35,236,426	-	-	-	-	-	35,236,426
Estimated Medicare and Medi-Cal settlements	399,891	53,903	-	-	-	-	453,794
Other receivables	646,897	-	-	-	-	-	646,897
Due from affiliates	3,362,201	-	-	3,909	-	(3,366,110)	-
Inventory	2,889,826	-	-	-	-	-	2,889,826
Prepaid expenses and other current assets	1,307,631	36,055	-	-	-	-	1,343,686
Current portion of notes receivable	515,962	-	-	-	-	-	515,962
Investments, marketable securities	19,613,199	-	-	-	-	-	19,613,199
Total current assets	<u>127,018,787</u>	<u>3,901,839</u>	<u>748,424</u>	<u>75,389</u>	<u>6,646</u>	<u>(3,366,110)</u>	<u>128,384,975</u>
Property and equipment, net	<u>51,714,515</u>	<u>94,167</u>	<u>12,445,975</u>	<u>1,907,926</u>	<u>155,108</u>	<u>-</u>	<u>66,317,691</u>
Other assets							
Notes receivable, net of current portion	4,103,736	-	-	-	-	-	4,103,736
Investment in Comp-OH, LLC	861,995	-	-	-	-	-	861,995
Investment in Oroville Hospital Post Acute Care	289,911	-	-	-	-	(289,911)	-
Investment in OHPAC Partners, LLC	1,841,023	-	-	-	-	(1,841,023)	-
Investment in Oroville Medical Partners, LLC	262,904	-	-	-	-	(262,904)	-
Investment in Solar Partners, LLC	117,583	-	-	-	-	(117,583)	-
Total other assets	<u>7,477,152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,511,421)</u>	<u>4,965,731</u>
Total assets	<u>\$ 186,210,454</u>	<u>\$ 3,996,006</u>	<u>\$ 13,194,399</u>	<u>\$ 1,983,315</u>	<u>\$ 161,754</u>	<u>\$ (5,877,531)</u>	<u>\$ 199,668,397</u>

See accompanying independent auditor's report.

Oroville Hospital
Consolidating Statement of Financial Position
November 30, 2018

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	\$ 2,748,663	\$ -	\$ 356,899	\$ 36,108	\$ -	\$ -	\$ 3,141,670
Current portion of capital lease obligations	3,701,587	-	-	-	-	-	3,701,587
Accounts payable	15,163,708	1,285,702	-	-	-	-	16,449,410
Supplemental funding payable	10,450,161	-	-	-	-	-	10,450,161
Due to related parties	4,031,736	3,643,082	-	-	249	(3,366,110)	4,308,957
Accrued payroll and payroll taxes	3,691,382	634,153	-	-	-	-	4,325,535
Accrued vacation	8,402,807	137,442	-	-	-	-	8,540,249
Accrued professional fees	3,745,571	-	-	-	-	-	3,745,571
Accrued insurance	1,488,219	124,697	-	-	-	-	1,612,916
Accrued pension contribution	2,236,632	133,798	-	-	-	-	2,370,430
Other accrued liabilities	659,265	44,237	-	500	-	-	704,002
Total current liabilities	<u>56,319,731</u>	<u>6,003,111</u>	<u>356,899</u>	<u>36,608</u>	<u>249</u>	<u>(3,366,110)</u>	<u>59,350,488</u>
Long-term liabilities							
Long-term debt, net of current portion	24,021,519	-	8,199,808	1,281,599	-	-	33,502,926
Capital lease obligations, net of current portion	9,659,143	-	-	-	-	-	9,659,143
Total long-term liabilities	<u>33,680,662</u>	<u>-</u>	<u>8,199,808</u>	<u>1,281,599</u>	<u>-</u>	<u>-</u>	<u>43,162,069</u>
Total liabilities	<u>90,000,393</u>	<u>6,003,111</u>	<u>8,556,707</u>	<u>1,318,207</u>	<u>249</u>	<u>(3,366,110)</u>	<u>102,512,557</u>
Net assets							
Unrestricted							
Unrestricted	96,210,061	(2,007,105)	2,377,304	339,204	80,016	(2,511,421)	94,488,059
Non-controlling interest	-	-	2,260,388	325,904	81,489	-	2,667,781
Total unrestricted net assets	<u>96,210,061</u>	<u>(2,007,105)</u>	<u>4,637,692</u>	<u>665,108</u>	<u>161,505</u>	<u>(2,511,421)</u>	<u>97,155,840</u>
Total liabilities and net assets	<u>\$ 186,210,454</u>	<u>\$ 3,996,006</u>	<u>\$ 13,194,399</u>	<u>\$ 1,983,315</u>	<u>\$ 161,754</u>	<u>\$ (5,877,531)</u>	<u>\$ 199,668,397</u>

See accompanying independent auditor's report.

Oroville Hospital
Consolidating Statement of Activities
For the Year Ended November 30, 2018

	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	\$ 302,425,929	\$ 14,406,532	\$ -	\$ -	\$ -	\$ -	\$ 316,832,461
Other revenue	<u>2,052,513</u>	<u>2,962</u>	<u>1,499,094</u>	<u>256,344</u>	<u>9,354</u>	<u>(1,595,121)</u>	<u>2,225,146</u>
Total revenues, gains and other support	<u>304,478,442</u>	<u>14,409,494</u>	<u>1,499,094</u>	<u>256,344</u>	<u>9,354</u>	<u>(1,595,121)</u>	<u>319,057,607</u>
Operating expenses							
Salaries and wages	96,696,087	6,623,993	-	-	-	-	103,320,080
Employee benefits	41,126,876	2,012,966	-	-	-	-	43,139,842
Legal and professional fees	59,468,592	140,128	9,928	11,716	-	-	59,630,364
Supplies	35,878,588	1,674,528	-	-	-	-	37,553,116
Purchased services	14,945,143	2,613,049	-	9,323	-	-	17,567,515
Depreciation	7,534,717	171,911	360,590	39,357	79,958	-	8,186,533
Rent	5,507,635	1,499,082	-	-	-	(1,411,488)	5,595,229
Insurance	2,117,189	250,184	4,683	5,665	-	-	2,377,721
Interest expense	1,789,088	2,098	334,988	61,483	-	-	2,187,657
Utilities	1,770,975	375,191	-	29,410	-	-	2,175,576
Hospital fee program payments	16,218,743	-	-	-	-	-	16,218,743
Other expenses	<u>5,475,539</u>	<u>860,412</u>	<u>89,953</u>	<u>28,877</u>	<u>2,778</u>	<u>-</u>	<u>6,457,559</u>
Total operating expenses	<u>288,529,172</u>	<u>16,223,542</u>	<u>800,142</u>	<u>185,831</u>	<u>82,736</u>	<u>1,411,488</u>	<u>304,409,935</u>
Change in net assets from operations	<u>15,949,270</u>	<u>(1,814,048)</u>	<u>698,952</u>	<u>70,513</u>	<u>(73,382)</u>	<u>(183,633)</u>	<u>14,647,672</u>
Non-operating income							
Investment income	980,167	-	-	-	-	-	980,167
Non-operating income	<u>82,372</u>	<u>(15,444)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>183,633</u>	<u>250,561</u>
Total non-operating income	<u>1,062,539</u>	<u>(15,444)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>183,633</u>	<u>1,230,728</u>
Change in net assets	17,011,809	(1,829,492)	698,952	70,513	(73,382)	-	15,878,400
Net assets (deficit), beginning of year	79,198,252	(177,613)	4,248,740	674,595	234,887	(2,734,239)	81,444,622
Member contributions	-	-	-	-	23,040	-	23,040
Capital distributions received/(paid)	<u>-</u>	<u>-</u>	<u>(310,000)</u>	<u>(80,000)</u>	<u>(23,040)</u>	<u>222,818</u>	<u>(190,222)</u>
Net assets (deficit), end of year	<u>\$ 96,210,061</u>	<u>\$ (2,007,105)</u>	<u>\$ 4,637,692</u>	<u>\$ 665,108</u>	<u>\$ 161,505</u>	<u>\$ (2,511,421)</u>	<u>\$ 97,155,840</u>

See accompanying independent auditor's report.

Oroville Hospital
Utilization Data (Unaudited)
For the Years Ended November 30, 2018, 2017, 2016, and 2015

Statistics	2018	2017	2016	2015
Patient Days	45,158	43,646	41,712	41,493
Adjusted Patient Days	89,522	82,949	79,327	66,210
Discharges	13,372	12,753	12,392	11,873
Adjusted Discharges	26,509	24,237	23,567	18,946
Medicare Patient Days	23,498	22,631	21,255	22,345
Medicare Discharges	6,170	5,969	5,722	5,662
Medicare Case Mix	1.54	1.52	1.52	1.56
Births	430	393	453	462
ER Visits	27,779	29,930	33,587	33,574
Home Health Visits	7,049	7,171	8,425	8,964
Lab Procedures	2,549,695	2,333,858	2,151,169	2,223,706
Clinic Visits	301,465	272,525	255,609	227,118

See accompanying independent auditor's report.