

Oroville Hospital

Consolidated Financial Statements
and Supplementary Information

November 30, 2019 and 2018



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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 (a California nonprofit corporation) (the "Hospital"), which comprise the consolidated statements of financial position as of November 30, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated 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.



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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, 2019 and 2018, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Hospital has adopted ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 20 to the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

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 32 - 35 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 35, 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 27, 2020

Oroville Hospital
Consolidated Statements of Financial Position
November 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 14,643,010	\$ 27,472,161
Assets limited as to use	40,200,000	5,591,065
Patient accounts receivable, net of allowance for doubtful accounts of \$99,396,205 and \$87,604,910 in 2019 and 2018, respectively	41,527,163	34,621,959
Supplemental funding receivables	48,540,855	35,236,426
Estimated Medicare and Medi-Cal settlements	779,596	453,794
Other receivables	1,789,810	646,897
Inventory	3,474,739	2,889,826
Prepaid expenses and other current assets	1,736,162	1,343,686
Current portion of notes receivable	481,413	515,962
Investments, marketable securities	<u>27,534,156</u>	<u>19,613,199</u>
Total current assets	<u>180,706,904</u>	<u>128,384,975</u>
Property and equipment, net	<u>91,784,562</u>	<u>66,317,691</u>
Noncurrent assets		
Assets limited as to use	158,739,188	-
Notes receivable, net of current portion	3,556,514	4,103,736
Investment in Comp-OH, LLC	<u>861,995</u>	<u>861,995</u>
Total noncurrent assets	<u>163,157,697</u>	<u>4,965,731</u>
 Total assets	 <u>\$ 435,649,163</u>	 <u>\$ 199,668,397</u>

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

Oroville Hospital
Consolidated Statements of Financial Position
November 30, 2019 and 2018

	2019	2018
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of notes payable	\$ 3,332,740	\$ 2,281,670
Current portion of bonds payable	725,000	860,000
Current portion of capital lease obligations	4,255,870	3,701,587
Accounts payable	21,459,539	16,449,410
Supplemental funding payable	12,880,230	10,450,161
Due to related parties	3,991,075	4,308,957
Accrued payroll and payroll taxes	4,971,107	4,325,535
Accrued vacation	9,594,507	8,540,249
Accrued professional fees	5,240,927	3,745,571
Accrued insurance	1,939,783	1,612,916
Accrued pension contribution	2,526,961	2,370,430
Other accrued liabilities	<u>2,459,252</u>	<u>704,002</u>
Total current liabilities	<u>73,376,991</u>	<u>59,350,488</u>
Long-term liabilities		
Notes payable, net of current portion	14,349,926	15,104,616
Bonds payable, net of current portion	225,765,553	18,398,310
Capital lease obligations, net of current portion	<u>9,967,086</u>	<u>9,659,143</u>
Total long-term liabilities	<u>250,082,565</u>	<u>43,162,069</u>
Total liabilities	<u>323,459,556</u>	<u>102,512,557</u>
Net assets		
Without donor restrictions		
Controlling interest	109,556,279	94,488,059
Non-controlling interest	<u>2,633,328</u>	<u>2,667,781</u>
Total net assets without donor restrictions	<u>112,189,607</u>	<u>97,155,840</u>
Total liabilities and net assets	<u>\$ 435,649,163</u>	<u>\$ 199,668,397</u>

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

Oroville Hospital
Consolidated Statements of Activities
For the Years Ended November 30, 2019 and 2018

	2019	2018
Revenues, gains, and other support		
Net patient service revenue net of provision for bad debts of \$11,374,047 in 2019, and \$10,892,329 in 2018	\$ 339,605,747	\$ 316,832,461
Other revenue	<u>3,433,556</u>	<u>2,225,146</u>
Total revenues, gains, and other support	<u>343,039,303</u>	<u>319,057,607</u>
 Operating expenses		
Salaries and wages	114,104,221	103,320,080
Employee benefits	45,789,341	43,139,842
Legal and professional fees	67,059,077	59,630,364
Supplies	44,508,966	37,553,116
Purchased services	16,358,835	17,567,515
Depreciation	8,977,330	8,186,533
Rent	5,498,532	5,595,229
Insurance	1,939,134	2,377,721
Interest expense	1,603,848	2,187,657
Utilities	2,253,976	2,175,576
Hospital fee program payments	17,559,678	16,218,743
Other expenses	<u>7,615,857</u>	<u>6,457,559</u>
Total operating expenses	<u>333,268,795</u>	<u>304,409,935</u>
 Change in net assets from operations	<u>9,770,508</u>	<u>14,647,672</u>
 Non-operating		
Investment income	5,574,544	980,167
Other income (loss)	<u>117,653</u>	<u>250,561</u>
Total non-operating	<u>5,692,197</u>	<u>1,230,728</u>
 Change in net assets	15,462,705	15,878,400
 Net assets without donor restrictions, beginning of year	97,155,840	81,444,622
Contributions from non-controlling ownership interests	-	23,040
Capital distributions to non-controlling interests	<u>(428,938)</u>	<u>(190,222)</u>
 Net assets without donor restrictions, end of year	<u>\$ 112,189,607</u>	<u>\$ 97,155,840</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, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ 15,462,705	\$ 15,878,400
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	8,977,330	8,186,533
Amortization of debt issuance costs	58,193	470,125
Realized and unrealized gains on marketable securities	(510,214)	(230,290)
Gain on disposal of property, plant and equipment	(12,951)	(49,798)
Realized (gain) loss on investments, other	-	(248,314)
Notes receivable forgiven	198,801	177,888
Patient accounts receivable, net	(6,905,204)	(3,758,257)
Supplemental funding receivable	(13,304,429)	12,104,349
Estimated Medicare and Medi-Cal settlements	(325,802)	(519,374)
Other receivables	(1,142,913)	326,945
Inventory	(584,913)	(588,845)
Prepaid expenses	(392,476)	(244,833)
Accounts payable and other accrued liabilities	8,366,170	2,387,992
Supplemental funding payable	2,430,069	(6,474,056)
Due to affiliates	(317,882)	(564,636)
Net cash provided by operating activities	11,996,484	26,853,829
Cash flows from investing activities		
Purchase of property and equipment	(27,498,032)	(12,327,670)
Proceeds on sale of property, plant and equipment	20,433	77,613
Payments received on notes receivable	917,229	918,396
Cash loaned under notes receivable	(534,259)	(1,741,600)
Purchase of investments, marketable securities	(22,522,692)	(9,719,973)
Sales of investments, marketable securities	15,111,949	18,738,195
Net cash used in investing activities	(34,505,372)	(4,055,039)
Cash flows from financing activities		
Borrowings under notes payable	1,682,398	22,131,090
Principal payments on notes payable and capital leases	(5,407,418)	(19,041,682)
Borrowings under bonds payable, net of issuance costs	207,977,910	-
Principal payments on bonds payable	(796,092)	-
Net change in assets limited to use	(193,348,123)	(4,910,714)
Capital contributions from noncontrolling ownership interests	-	23,040
Capital distributions to noncontrolling ownership interests	(428,938)	(190,222)
Net cash provided by (used in) financing activities	9,679,737	(1,988,488)
Net increase (decrease) in cash and cash equivalents	(12,829,151)	20,810,302
Cash and cash equivalents, beginning of year	27,472,161	6,661,859
Cash and cash equivalents, end of year	\$ 14,643,010	\$ 27,472,161

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, 2019 and 2018

	2019	2018
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 7,719,256	\$ 2,196,484
Supplemental schedule of noncash investing and financing activities		
Acquisition of property and equipment through capital lease financing	\$ 6,953,651	\$ 5,940,406
Additions to property and equipment included in accounts payable	\$ 2,077,793	\$ -

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

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

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

Basis of accounting and financial statement presentation

The accompanying consolidated financial statements are prepared on the accrual basis of accounting. Net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* - Net assets without donor restrictions represent those resources of the Hospital that are not subject to donor-imposed stipulations.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and financial statement presentation (continued)

- *Net assets with donor restrictions* - Net assets with donor restrictions represent contributions subject to donor-imposed restrictions that can be fulfilled by actions of the Hospital pursuant to those stipulations or by passage of time or are subject to donor-imposed restrictions that they by maintained in perpetuity.

The Hospital held no net assets with donor restrictions as of November 30, 2019 and 2018.

Change in accounting principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 makes certain improvements to current reporting requirements, including:

1. Reducing the classes of net assets from three (unrestricted, temporarily restricted, and permanently restricted) to two (with donor restrictions and without donor restrictions).
2. Enhancing disclosures about:
 - a. Amounts and purposes of governing board designations, appropriations, and similar actions that result in self-imposed limits on the use of resources without donor-imposed restrictions.
 - b. Composition of net assets with donor restrictions and how the restrictions affect the use of resources.
 - c. Qualitative information about management of liquid resources and quantitative information about the availability of liquid resources to meet cash needs for general expenditures within one year of the statement of financial position date.
 - d. Amounts of expenses by both their natural classification and their functional classification in one location as a separate statement or in the notes to the financial statements.
 - e. Methods used to allocate costs among program and support functions.
 - f. Underwater endowment funds.
3. Reporting investment return net of external and direct internal investment expenses.
4. Use, in the absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption (thus eliminating the current option to release the donor-imposed restriction over the estimated useful life of the acquired asset).

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle (continued)

The amendments have been applied on a retrospective basis in 2019, with the option to omit the statement of functional expenses and disclosures about liquidity and availability of resources for the prior year comparative period.

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.

Principles of consolidation

The 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, 2019. No events occurred in the limited liability companies during the months of December 2018 or 2019 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 2018 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.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *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, 2019 and 2018.

- *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.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions 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 support without donor restrictions. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as support with donor restrictions. 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.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The Hospital has evaluated its current tax positions and has concluded that as of November 30, 2019 and 2018, 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, 2019 and 2018.

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, 2019, the Hospital recorded a \$392,052 receivable from the Department of Health Care Services ("DHS") for supplemental funding due for the period from October 1, 2018 through November 30, 2019 based upon funding information received from DHS. At November 30, 2018, the Hospital recorded a receivable of \$446,873 from DHS for supplemental funding due for the period from June 1, 2017 through November 30, 2018.

HQAF Program: At November 30, 2019 and 2018, the Hospital has a receivable for expected HQAF payments to be received of \$48,148,803 and \$34,789,553, respectively. At November 30, 2019 and 2018, the Hospital has a payable for expected HQAF payments to be made of \$12,880,230 and \$10,450,161, 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 11.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

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 \$12,394,000 and \$10,965,000 in 2019 and 2018, respectively.

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, 2016. Medicare charges, measured at established rates, approximated \$498,643,332 and \$434,489,813 in 2019 and 2018, respectively. The difference between established rates and net patient service revenue totaled \$363,251,837 and \$309,480,398 in 2019 and 2018, 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, 2018. 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 \$353,275,280 and \$335,026,389 in 2019 and 2018, respectively. The difference between established rates and net patient service revenue totaled \$260,640,993 and \$243,694,326 in 2019 and 2018, respectively.

Oroville Hospital
Notes to Consolidated Financial Statements
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4. THIRD-PARTY PAYOR ARRANGEMENTS (continued)

Medi-Cal (continued)

Gross revenue from the Medicare and Medi-Cal programs accounted for approximately 48% and 33% (2019) and 47% and 36% (2018), 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.

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.

Oroville Hospital
Notes to Consolidated Financial Statements
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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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Assets limited as to use				
Money market funds	<u>\$198,939,188</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$198,939,188</u>
	<u>198,939,188</u>	<u>-</u>	<u>-</u>	<u>198,939,188</u>
Investments, marketable securities				
Money market funds	64,761	-	-	64,761
Mutual funds	5,993,778	-	-	5,993,778
Corporate bonds	-	11,125,236	-	11,125,236
U.S. Government securities	<u>-</u>	<u>10,350,381</u>	<u>-</u>	<u>10,350,381</u>
	<u>6,058,539</u>	<u>21,475,617</u>	<u>-</u>	<u>27,534,156</u>
	<u><u>\$204,997,727</u></u>	<u><u>\$ 21,475,617</u></u>	<u><u>\$ -</u></u>	<u><u>\$226,473,344</u></u>

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	<u>\$ 5,591,065</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,591,065</u>
	<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	<u>-</u>	<u>6,947,438</u>	<u>-</u>	<u>6,947,438</u>
	<u>6,124,757</u>	<u>13,488,442</u>	<u>-</u>	<u>19,613,199</u>
	<u><u>\$ 11,715,822</u></u>	<u><u>\$ 13,488,442</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 25,204,264</u></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.

Oroville Hospital
Notes to Consolidated Financial Statements
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6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	2019	2018
Land and improvements	\$ 6,281,624	\$ 6,054,541
Buildings and improvements	54,244,005	52,983,793
Equipment	92,602,094	84,925,813
Construction in progress	31,538,942	6,294,320
	184,666,665	150,258,467
Accumulated depreciation	(92,882,103)	(83,940,776)
	\$ 91,784,562	\$ 66,317,691

Total depreciation and amortization expenses amounted to \$8,977,330 and \$8,186,533 for the years ended November 30, 2019 and 2018, respectively. Accumulated amortization for equipment under capital lease obligations was \$12,765,768 and \$11,296,006 at November 30, 2019 and 2018, respectively.

7. BONDS PAYABLE

Bonds payable are detailed as follows:

	2019	2018
City of Oroville Insured Hospital Revenue Bonds	\$ 230,606,145	\$ 19,600,000
Current portion	(725,000)	(860,000)
	\$ 229,881,145	\$ 18,740,000

The future maturities of the bonds payable are as follows:

Year ending November 30,	
2020	\$ 725,000
2021	750,000
2022	775,000
2023	800,000
Thereafter	227,556,145
	230,606,145
Less: unamortized debt issuance costs	(4,115,592)
Bonds payable, net of debt issuance costs	226,490,553
Current portion	(725,000)
	\$ 225,765,553

Oroville Hospital
Notes to Consolidated Financial Statements
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7. BONDS PAYABLE (continued)

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

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, 2019 and 2018, the Hospital was in compliance with all covenants.

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 are being used towards the construction of the Hospital's new tower 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. Construction of the tower project commenced in April 2019 and is expected to be substantially complete after 36 months. The total cost of the project is expected to be \$178.1 million. The bond is secured by a letter of a loan agreement with the city of Oroville. The 2019 bonds bear interest at a rate of 5.25% and mature on April 1, 2054. Principal maturities for the bonds, aggregating \$195,630,000, range from \$1,140,000 to \$13,710,000 and are due annually on April 1 2024 through 2054.

Under the terms of the Continuing Disclosure Agreement with Digital Assurance Certification, LLC, a dissemination agent of the Series 2019 Bonds, dated February 26, 2019, the Hospital is required to maintain and report a debt-service-coverage ratio of not less than 1.10 and hold a minimum of at least 45 days cash on hand. As of November 30, 2019, 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 \$15,457,649 and \$15,781,837 at November 30, 2019 and 2018, respectively. Leases expire in various years through 2024.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

8. CAPITAL LEASE OBLIGATIONS (continued)

Capital lease obligations consisted of the following:

	2019	2018
Current portion of capital lease obligations	\$ 4,255,870	\$ 3,701,587
Capital lease obligations, net of current portion	9,967,086	9,659,143
	\$ 14,222,956	\$ 13,360,730

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending November 30,</u>	
2020	\$ 4,709,049
2021	3,775,934
2022	3,009,957
2023	2,342,151
Thereafter	1,471,482
	15,308,573
Less: imputed interest	(1,085,617)
	\$ 14,222,956

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

9. NOTES PAYABLE

Notes payable are detailed as follows:

	<u>2019</u>	<u>2018</u>
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.	\$ 66,297	\$ 143,406
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, 2019.	171,605	446,337
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.	507,706	529,925
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.	264,921	276,853
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.	36,345	49,257
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.	263,427	274,878
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.	2,360,264	2,809,167
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.	84,025	109,948
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.	8,270,332	8,601,546
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.	671,394	689,779

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

9. NOTES PAYABLE (continued)

	<u>2019</u>	<u>2018</u>
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.	616,256	633,130
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.	393,704	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 2020. The variable rate is one month LIBOR plus 1.5%.	2,000,000	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.	20,474	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.	21,968	27,577
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.	1,007,227	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.	326,225	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.	242,137	116,196
Note payable to GE Healthcare Capital in 72 monthly installments of \$7,227, including interest of 4.35% through January 2025. The note is secured by equipment.	400,632	-
	<u>17,724,939</u>	<u>17,436,327</u>
Less unamortized debt issuance costs	(42,273)	(50,041)
	<u>17,682,666</u>	<u>17,386,286</u>
Current portion	<u>(3,332,740)</u>	<u>(2,281,670)</u>
	<u>\$ 14,349,926</u>	<u>\$ 15,104,616</u>

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

9. NOTES PAYABLE (continued)

The future maturities of the notes payable are as follows:

<u>Year ending November 30,</u>		
2020	\$	3,332,740
2021		1,137,992
2022		1,612,043
2023		1,580,488
Thereafter		<u>10,061,676</u>
	\$	<u>17,724,939</u>

10. 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, 2019 and 2018. The line of credit is secured partially with a deposit. As of November 30, 2019 and 2018, there was an outstanding balance included in accounts payable of \$259,153 and \$304,820, 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.

11. 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 \$35,131,952 and \$34,892,721 for the years ended November 30, 2019 and 2018, respectively.

Oroville Hospital
Notes to Consolidated Financial Statements
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11. CALIFORNIA HOSPITAL QUALITY ASSURANCE FEE PROGRAM (continued)

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

	2019	2018
HQAF revenue		
Medi-Cal Fee-for-Service program revenue	\$ 23,851,727	\$ 35,976,688
Managed care revenue	28,839,903	15,134,776
Total HQAF revenue	52,691,630	51,111,464
HQAF expense		
Quality assurance fee	17,222,097	15,918,855
California Health Foundation and Trust payment	337,581	299,888
Total HQAF expense	17,559,678	16,218,743
HQAF net benefit	\$ 35,131,952	\$ 34,892,721

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12. COMMITMENTS AND CONTINGENCIES

The Hospital leases buildings and equipment under operating leases expiring in various years through 2023.

Minimum future rental payments to nonrelated parties under noncancelable operating leases with remaining terms in excess of one year as of November 30, 2019, are as follows:

Year ending November 30,	
2020	\$ 803,108
2021	655,776
2022	641,621
2023	125,313
	\$ 2,225,818

Related party operating leases

The Hospital leases buildings and equipment from related parties under operating leases expiring in various years through 2028.

Oroville Hospital
Notes to Consolidated Financial Statements
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12. COMMITMENTS AND CONTINGENCIES (continued)

Related party operating leases (continued)

Minimum future rental payments to nonrelated parties under noncancelable operating leases with remaining terms in excess of one year as of November 30, 2019, are as follows:

<u>Year ending November 30,</u>		
2020	\$	4,081,166
2021		3,966,023
2022		4,045,343
2023		4,029,895
2024		3,688,928
Thereafter		<u>11,649,238</u>
	<u>\$</u>	<u>31,460,593</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, 2021. 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, 2019. 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 Hospital's future financial position or results of operations.

Oroville Hospital
Notes to Consolidated Financial Statements
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12. COMMITMENTS AND CONTINGENCIES (continued)

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.

13. 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>2019</u>	<u>2018</u>
Due to affiliates		
OroHealth Corporation - administrative expenses	\$ 3,484,902	\$ 4,062,453
OroLake Corporation - operating expenses	(19,703)	(14,568)
Oroville Medical Complex, LLC - operating expenses	<u>(18,507)</u>	<u>(15,258)</u>
	<u>\$ 3,446,692</u>	<u>\$ 4,032,627</u>

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

13. RELATED PARTY (continued)

<u>Related Party</u>	<u>Description</u>	<u>2019</u>	<u>2018</u>
Revenues			
Oroville Medical Complex, LLC	Property management and housekeeping	<u>\$ 216,177</u>	<u>\$ 208,551</u>
Expenses			
OroHealth Corporation	Salaries, wages and benefits	\$ 311,951	\$ 282,209
OroHealth Corporation	Rent	222,300	309,193
OroHealth Corporation	Management fees	3,641,147	3,666,600
Oroville Sports Club, LLC	Membership and rent	301,784	327,164
Oroville Medical Complex, LLC	Rent	1,960,792	2,000,032
Dove's Landing, LLC	Rent	<u>1,249,848</u>	<u>1,209,524</u>
		<u>\$ 7,687,822</u>	<u>\$ 7,794,722</u>

14. 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 Hospital, and the plan does not require annual contributions. The Hospital authorized and accrued a contribution for the plan years ended November 30, 2019 and 2018, for approximately \$2,530,000 and \$2,370,000, respectively.

15. 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>2019</u>	<u>2018</u>
Medicare	37.00 %	37.00 %
Medi-Cal	34.00	37.00
Patient and private insurance	22.00	20.00
Other contracted payors	<u>7.00</u>	<u>6.00</u>
	<u>100.00 %</u>	<u>100.00 %</u>

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

15. CONCENTRATIONS (continued)

Source of supply labor

The Hospital employs 1,849 employees. Approximately 63% 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 22% of the Hospital's workforce. The Hospital's bargaining agreement with California Nurses Association expired April 1, 2019. The agreement was renegotiated effective July 3, 2019 and is to continue in full force and effect until July 3, 2023, upon its expiration. The United Steelworkers represent the Hospital's Business office, clinic, service and technical staff; which accounts for approximately 2%, 3%, 27%, and 9% of the workforce, respectively. The bargaining agreements with The United Steelworkers expired November 30, 2017. New agreements were entered into effective June 15, 2018 and will remain in effect through June 14, 2022.

16. FUNCTIONAL EXPENSES

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

The table below sets forth the Hospital's operating expenses on both a natural and functional expense related to providing these services for the year ending November 30, 2019:

	Health care services	General and administrative	Total
Salaries and wages	\$ 99,535,018	\$ 14,569,203	\$ 114,104,221
Employee benefits	43,523,046	2,266,295	45,789,341
Legal and professional fees	62,538,251	4,520,826	67,059,077
Supplies	42,834,889	1,674,077	44,508,966
Purchased services	12,133,966	4,224,869	16,358,835
Depreciation	7,011,855	1,965,475	8,977,330
Rent	4,879,066	619,466	5,498,532
Insurance	226,920	1,712,214	1,939,134
Interest expense	429,875	1,173,973	1,603,848
Utilities	2,253,976	-	2,253,976
Hospital fee program payments	-	17,617,425	17,617,425
Other expenses	2,591,102	4,967,008	7,558,110
	<u>\$ 277,957,964</u>	<u>\$ 55,310,831</u>	<u>\$ 333,268,795</u>

17. JOINT POWERS AGREEMENTS

The Hospital participates in a joint venture under a joint powers agreement (JPA) with BETA Healthcare Group (the Fund). The Fund arranges for and provides certain member health care entities with pooled workers' compensation self-insurance.

Oroville Hospital
Notes to Consolidated Financial Statements
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17. JOINT POWERS AGREEMENTS (continued)

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.

18. 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 \$1,708,791 and \$1,524,228 as of November 30, 2019 and 2018, 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.

19. LIQUIDITY AND FUNDS AVAILABLE

As part of the Hospital's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To meet liquidity needs, the Hospital has cash and cash equivalents, receivables and investments available. Investments in marketable securities are comprised of money market funds, mutual funds, corporate bonds and U.S. Government securities that can be readily liquidated to pay for operating needs. Net patient accounts receivable are considered current and will be collected within one year.

The following is a quantitative disclosure which describes assets that are available within one year of November 30, 2019 to fund general expenditures and other obligations as they become due:

Financial assets available for general expenditure within one year:

Cash and cash equivalents	\$ 14,643,010
Investments, marketable securities	27,534,156
Patient accounts receivable, net of allowance for doubtful accounts	41,527,163
Current portion of notes receivable	481,413
Other receivables	<u>1,789,810</u>
	<u><u>\$ 85,975,552</u></u>

Additionally, the Hospital has a committed line of credit in the amount of \$750,000, of which \$490,847 was available to the Hospital to draw upon as of November 30, 2019, in the event of an unanticipated liquidity need.

Oroville Hospital
Notes to Consolidated Financial Statements
November 30, 2019 and 2018

20. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 27, 2020, 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 December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which includes significant provisions to provide relief and assistance to affected organizations. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders and the ultimate impact of the CARES Act and other governmental initiatives. It is at least reasonably possible that this matter will negatively impact the Hospital. However, the financial impact and duration cannot be reasonably estimated at this time.

SUPPLEMENTARY INFORMATION

Oroville Hospital
Consolidating Statement of Financial Position
November 30, 2019

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	\$ 12,700,911	\$ 1,075,343	\$ 753,836	\$ 90,609	\$ 22,311	\$ -	\$ 14,643,010
Assets limited as to use	40,200,000	-	-	-	-	-	40,200,000
Patient accounts receivable, net of allowance for doubtful accounts	37,486,291	4,040,872	-	-	-	-	41,527,163
Supplemental funding receivables	48,540,855	-	-	-	-	-	48,540,855
Estimated Medicare and Medi-Cal settlements	779,596	-	-	-	-	-	779,596
Other receivables	1,789,810	-	-	-	-	-	1,789,810
Due from affiliates	5,473,450	-	-	-	-	(5,473,450)	-
Inventory	3,474,739	-	-	-	-	-	3,474,739
Prepaid expenses and other current assets	1,660,580	75,582	-	-	-	-	1,736,162
Current portion of notes receivable	481,413	-	-	-	-	-	481,413
Investments, marketable securities	27,534,156	-	-	-	-	-	27,534,156
Total current assets	<u>180,121,801</u>	<u>5,191,797</u>	<u>753,836</u>	<u>90,609</u>	<u>22,311</u>	<u>(5,473,450)</u>	<u>180,706,904</u>
Property and equipment, net	<u>77,578,738</u>	<u>175,528</u>	<u>12,097,667</u>	<u>1,868,569</u>	<u>64,060</u>	<u>-</u>	<u>91,784,562</u>
Other assets							
Assets limited as to use	158,739,188	-	-	-	-	-	158,739,188
Notes receivable, net of current portion	3,556,514	-	-	-	-	-	3,556,514
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	1,430,762	-	-	-	-	(1,430,762)	-
Investment in Oroville Medical Partners, LLC	222,103	-	-	-	-	(222,103)	-
Investment in Solar Partners, LLC	117,583	-	-	-	-	(117,583)	-
Total other assets	<u>165,218,056</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,060,359)</u>	<u>163,157,697</u>
Total assets	<u>\$ 422,918,595</u>	<u>\$ 5,367,325</u>	<u>\$ 12,851,503</u>	<u>\$ 1,959,178</u>	<u>\$ 86,371</u>	<u>\$ (7,533,809)</u>	<u>\$ 435,649,163</u>

Oroville Hospital
Consolidating Statement of Financial Position
November 30, 2019

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 notes payable	\$ 2,956,611	\$ -	\$ 340,275	\$ 35,854	\$ -	\$ -	\$ 3,332,740
Current portion of bonds payable	725,000	-	-	-	-	-	725,000
Current portion of capital lease obligations	4,255,870	-	-	-	-	-	4,255,870
Accounts payable	20,794,910	664,559	-	-	70	-	21,459,539
Supplemental funding payable	12,880,230	-	-	-	-	-	12,880,230
Due to related parties	3,453,574	6,025,560	-	(14,858)	249	(5,473,450)	3,991,075
Accrued payroll and payroll taxes	4,376,086	595,021	-	-	-	-	4,971,107
Accrued vacation	9,438,067	156,440	-	-	-	-	9,594,507
Accrued professional fees	5,240,927	-	-	-	-	-	5,240,927
Accrued insurance	1,391,527	548,256	-	-	-	-	1,939,783
Accrued pension contribution	2,383,443	143,518	-	-	-	-	2,526,961
Other accrued liabilities	2,432,612	26,140	-	500	-	-	2,459,252
Total current liabilities	<u>70,328,857</u>	<u>8,159,494</u>	<u>340,275</u>	<u>21,496</u>	<u>319</u>	<u>(5,473,450)</u>	<u>73,376,991</u>
Long-term liabilities							
Notes payable, net of current portion	5,210,346	-	7,892,024	1,247,556	-	-	14,349,926
Bonds payable, net of current portion	225,765,553	-	-	-	-	-	225,765,553
Capital lease obligations, net of current portion	9,967,086	-	-	-	-	-	9,967,086
Total long-term liabilities	<u>240,942,985</u>	<u>-</u>	<u>7,892,024</u>	<u>1,247,556</u>	<u>-</u>	<u>-</u>	<u>250,082,565</u>
Total liabilities	<u>311,271,842</u>	<u>8,159,494</u>	<u>8,232,299</u>	<u>1,269,052</u>	<u>319</u>	<u>(5,473,450)</u>	<u>323,459,556</u>
Net assets							
Without donor restrictions							
Controlling interest	111,646,753	(2,792,169)	2,367,802	351,962	42,290	(2,060,359)	109,556,279
Non-controlling interests	-	-	2,251,402	338,164	43,762	-	2,633,328
Total net assets without donor restrictions	<u>111,646,753</u>	<u>(2,792,169)</u>	<u>4,619,204</u>	<u>690,126</u>	<u>86,052</u>	<u>(2,060,359)</u>	<u>112,189,607</u>
Total liabilities and net assets	<u>\$ 422,918,595</u>	<u>\$ 5,367,325</u>	<u>\$ 12,851,503</u>	<u>\$ 1,959,178</u>	<u>\$ 86,371</u>	<u>\$ (7,533,809)</u>	<u>\$ 435,649,163</u>

Oroville Hospital
Consolidating Statement of Activities
For The Year Ended November 30, 2019

	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	\$ 322,345,084	\$ 17,260,663	\$ -	\$ -	\$ -	\$ -	\$ 339,605,747
Other revenue	<u>3,160,254</u>	<u>38,558</u>	<u>1,551,488</u>	<u>294,186</u>	<u>19,785</u>	<u>(1,630,715)</u>	<u>3,433,556</u>
Total revenues, gains and other support	<u>325,505,338</u>	<u>17,299,221</u>	<u>1,551,488</u>	<u>294,186</u>	<u>19,785</u>	<u>(1,630,715)</u>	<u>343,039,303</u>
Operating expenses							
Salaries and wages	104,875,663	9,228,558	-	-	-	-	114,104,221
Employee benefits	42,682,613	3,106,728	-	-	-	-	45,789,341
Legal and professional fees	66,924,203	116,253	8,418	7,915	2,288	-	67,059,077
Supplies	42,545,327	1,963,610	-	-	29	-	44,508,966
Purchased services	15,266,982	1,082,650	-	9,203	-	-	16,358,835
Depreciation	8,457,172	40,347	348,308	40,355	91,148	-	8,977,330
Rent	5,480,808	1,590,036	-	-	-	(1,572,312)	5,498,532
Insurance	2,280,320	(353,724)	6,869	5,669	-	-	1,939,134
Interest expense	1,224,398	1,950	323,258	54,242	-	-	1,603,848
Utilities	1,844,693	363,718	-	45,565	-	-	2,253,976
Hospital fee program payments	17,559,678	-	-	-	-	-	17,559,678
Other expenses	<u>6,597,985</u>	<u>906,757</u>	<u>83,123</u>	<u>26,219</u>	<u>1,773</u>	<u>-</u>	<u>7,615,857</u>
Total operating expenses	<u>315,739,842</u>	<u>18,046,883</u>	<u>769,976</u>	<u>189,168</u>	<u>95,238</u>	<u>(1,572,312)</u>	<u>333,268,795</u>
Change in net assets from operations	<u>9,765,496</u>	<u>(747,662)</u>	<u>781,512</u>	<u>105,018</u>	<u>(75,453)</u>	<u>(58,403)</u>	<u>9,770,508</u>
Non-operating income (expense)							
Investment income	5,574,544	-	-	-	-	-	5,574,544
Other income (loss)	<u>96,652</u>	<u>(37,402)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,403</u>	<u>117,653</u>
Total non-operating income (expense)	<u>5,671,196</u>	<u>(37,402)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,403</u>	<u>5,692,197</u>
Change in net assets	15,436,692	(785,064)	781,512	105,018	(75,453)	-	15,462,705
Net assets (deficit) without donor restrictions, beginning of year	96,210,061	(2,007,105)	4,637,692	665,108	161,505	(2,511,421)	97,155,840
Capital distributions paid	<u>-</u>	<u>-</u>	<u>(800,000)</u>	<u>(80,000)</u>	<u>-</u>	<u>451,062</u>	<u>(428,938)</u>
Net assets (deficit) without donor restrictions, end of year	<u>\$ 111,646,753</u>	<u>\$ (2,792,169)</u>	<u>\$ 4,619,204</u>	<u>\$ 690,126</u>	<u>\$ 86,052</u>	<u>\$ (2,060,359)</u>	<u>\$ 112,189,607</u>

Oroville Hospital
Hospital Utilization Data (Unaudited)
For The Years Ended November 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statistics				
Patient Days	48,429	45,158	43,646	41,712
Adjusted Patient Days	99,671	89,522	82,949	79,327
Discharges	13,889	13,372	12,753	12,392
Adjusted discharges	28,585	26,509	24,237	23,567
Medicare patient days	26,178	23,498	22,631	21,255
Medicare discharges	6,670	6,170	5,969	5,722
Medicare case mix	154	154	152	152
Births	488	430	393	453
ER visits	28,602	27,779	29,930	33,587
Lab procedures	2,641,631	2,549,695	2,333,858	2,151,169
Clinic visits	320,348	301,465	272,525	255,609