Mendocino Coast Health Care District

Basic Financial Statements and Independent Auditors' Reports

June 30, 2023 and 2022

ACCOUNTANTS | ADVISORS

Mendocino Coast Health Care District
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Mendocino Coast Health Care District
Fort Bragg, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Mendocino Coast Health Care District (the District), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2023 and 2022, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2022, the District adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has not presented the management's discussion and analysis that GAAP require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2026, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

DZA PLLC

Spokane Valley, Washington
July 20, 2026

Mendocino Coast Health Care District
Statements of Net Position
June 30, 2023 and 2022

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	**2023**	**2022**
Current assets		
Cash and cash equivalents	**$ 6,965,978**	$ 20,229,458
Cash and cash equivalents restricted as to use	**723,743**	831,004
Investments limited as to use in Local Agency Investment Funds	**3,543,675**	3,483,263
Receivables:		
Due from State of California	**1,095,395**	-
Estimated third-party payor settlements	**2,216,234**	2,216,234
Taxes	**199,296**	184,285
Adventist Health	**45,749**	-
Lease	**1,750,000**	875,000
Prepaid expenses	**-**	23,123
Total current assets	**16,540,070**	27,842,367
Noncurrent assets		
Cash and cash equivalents restricted as to use, less current portion	**407,350**	407,350
Nondepreciable capital assets	**5,174,854**	5,998,497
Depreciable capital assets, net	**10,956,459**	10,247,018
Lease receivable	**39,127,411**	38,768,530
Total noncurrent assets	**55,666,074**	55,421,395
Deferred outflows of resources, bond refunding	**276,251**	325,001
Total assets and deferred outflows of resources	**$ 72,482,395**	$ 83,588,763

See accompanying notes to financial statements.

Mendocino Coast Health Care District
Statements of Net Position (Continued)
June 30, 2023 and 2022

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	2023	2022
Current liabilities		
Payments due to Adventist Health	**$ -**	$ 11,727,146
Accrued interest	**237,986**	487,900
Current maturities of long-term debt	**1,018,230**	855,802
Total current liabilities	**1,256,216**	13,070,848
Noncurrent liabilities		
Long-term debt, less current maturities	**7,239,750**	8,340,258
Total liabilities	**8,495,966**	21,411,106
Deferred inflows of resources		
Deferred lease revenue for hospital real property and fixed equipment	**37,407,068**	38,792,516
Net position		
Net investment in capital assets	**8,359,584**	7,794,456
Restricted for debt service and reserve	**1,131,093**	1,238,354
Unrestricted	**17,088,684**	14,352,331
Total net position	**26,579,361**	23,385,141
Total liabilities, deferred inflows of resources, and net position	**$ 72,482,395**	$ 83,588,763

See accompanying notes to financial statements.

Mendocino Coast Health Care District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022

	2023	2022
Operating revenues		
Lease revenue	$ 1,385,448	$ 1,385,448
Medi-Cal overpayment (repayment of prior overpayments)	(422,578)	-
Other revenue	18,531	31,088
Total operating revenues	981,401	1,416,536
Operating expenses		
Legacy employee benefits	6,522	102,020
Professional fees	268,181	200,277
Supplies	32,347	29,235
Depreciation	1,211,536	1,339,963
Repairs and maintenance	1,058,914	952,686
Insurance	33,602	32,169
Other	73,595	111,844
Total operating expenses	2,684,697	2,768,194
Operating loss	(1,703,296)	(1,351,658)
Nonoperating revenues (expenses)		
Taxation for operations	2,545,309	2,485,927
Taxation for debt service	545,545	506,614
Interest income	2,172,807	2,099,366
Interest expense	(366,145)	(412,844)
Total nonoperating revenues (expenses), net	4,897,516	4,679,063
Change in net position	3,194,220	3,327,405
Net position, beginning of year	23,385,141	20,057,736
Net position, end of year	$ 26,579,361	$ 23,385,141

See accompanying notes to financial statements.

Mendocino Coast Health Care District
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Change in Cash and Cash Equivalents		
Cash flows from operating activities		
Receipts from lease agreements	**$ 938,926**	$ 2,633,800
Other payments	**(27,218)**	(89,349)
Payments to and on behalf of employees	**(6,522)**	(102,020)
Payment to State of California	**(1,095,395)**	-
Repayment of Medi-Cal overpayments	**(422,578)**	-
Payments to suppliers and contractors	**(1,443,516)**	(1,356,265)
Net cash from operating activities	**(2,056,303)**	1,086,166
Cash flows from noncapital financing activities		
Payments made to Adventist Health	**(11,727,146)**	(5,036,472)
District tax receipts for maintenance and operations	**2,530,298**	2,483,685
Principal payments on long-term debt	**(210,000)**	(210,000)
Net cash from noncapital financing activities	**(9,406,848)**	(2,762,787)
Cash flows from capital and related financing activities		
District tax receipts for bond principal and interest	**545,545**	506,614
Principal payments on long-term debt	**(658,272)**	(878,630)
Interest paid	**(637,117)**	(646,057)
Purchase of capital assets	**(1,097,334)**	(1,107,314)
Net cash from capital and related financing activities	**(1,847,178)**	(2,125,387)
Cash flows from investing activities		
Purchase of investments in Local Agency Investment Funds	**(60,412)**	(6,862)
Net change in cash and cash equivalents	**(13,370,741)**	(3,808,870)
Cash and cash equivalents, beginning of year	**21,467,812**	25,276,682
Cash and cash equivalents, end of year	**$ 8,097,071**	$ 21,467,812

See accompanying notes to financial statements.

Mendocino Coast Health Care District
Statements of Cash Flows (Continued)
Years Ended June 30, 2023 and 2022

	2023	2022
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	**$ 6,965,978**	$ 20,229,458
Cash and cash equivalents restricted, current	**723,743**	831,004
Cash and cash equivalents restricted, long-term	**407,350**	407,350
Total cash and cash equivalents	**$ 8,097,071**	$ 21,467,812
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	**$ (1,703,296)**	$ (1,351,658)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	**1,211,536**	1,339,963
Lease interest income	**2,172,807**	2,099,366
(Increase) decrease in assets:		
Receivables:		
Due from State of California	**(1,095,395)**	-
Estimated third-party payor settlements	**-**	(120,437)
Lease	**(1,233,881)**	534,433
Other	**(45,749)**	-
Prepaid expenses	**23,123**	(23,123)
Increase (decrease) in liabilities:		
Accounts payable	**-**	(6,931)
Deferred lease revenue	**(1,385,448)**	(1,385,447)
Net cash from operating activities	**$ (2,056,303)**	$ 1,086,166

See accompanying notes to financial statements.

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Mendocino Coast Health Care District (the District) is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the state of California and is not subject to federal or state income taxes. The District is governed by a five-member Board of Directors, elected from within the District to specified terms of office. The District's offices are located in Fort Bragg, California.

The District originally authorized and constructed a critical access hospital with 45 beds that was dedicated on June 26, 1971. The original facility is still in operation today and presently operates 25 acute care beds, as designated under current state law. The facility was operated by the District until July 1, 2020, when the District entered into a lease and transfer of business operations with Adventist Health Mendocino Coast (Adventist Health) who now operates the Mendocino Coast Hospital facilities under a lease agreement through June 30, 2050. The amount due to Adventist Health from this transition has been recorded as a payable as of June 30, 2022, for patient and insurance payments made to the District that were for Adventist Health.

The District has no significant component units.

b. Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise fund accounting – The District's accounting policies conform to GAAP as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents and investments – The District considers cash and cash equivalents to include certain investments in highly liquid debt instruments with an original maturity date of 90 days or less.

Prepaid expenses – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense.

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. The District had restricted net position as of June 30, 2023 and 2022, related to the debt service and debt reserve requirements. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted net position*.

Operating revenues and expenses – The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services, which is the District's principal activity. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs. Nonoperating revenues and expenses are those transactions not considered directly linked to providing healthcare services.

The District considers the lease income and related expenses, primarily depreciation, to be an operating activity as the lease contributes to the achievement of the District's purpose of providing healthcare services.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

Grants and contributions – From time to time, the District receives grants from the state of California and others, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are restricted to specific capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects or purposes related to the District's operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

Intergovernmental Transfer program – During the year ended June 30, 2023, the District participated in an Intergovernmental Transfer (IGT) program administered by the California Department of Health Care Services (DHCS) under Contract No. 21-10228. On February 24, 2023, the District transferred $1,095,395 to DHCS. Of this amount, $219,079 was initially designated as a 20 percent nonrefundable assessment fee and $876,316 was intended to fund the nonfederal share of Medi-Cal Managed Care capitation rates.

Subsequent to the transfer, the District was determined to be ineligible for participation in the IGT program because the District did not provide direct healthcare services during the relevant program period. The District requested a full refund of the transfer, including the amount initially designated as the assessment fee. The full amount was refunded to the District during the year ended June 30, 2024.

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Intergovernmental Transfer program (continued) – Because the District did not meet the eligibility requirements for the IGT program at the time of transfer, the District recorded the full $1,095,395 as due from the state of California in the statement of net position as of June 30, 2023. No revenue, expense, expenditure, or other change in net position was recognized in connection with the IGT transaction during the year ended June 30, 2023.

Subsequent events – Subsequent events have been reviewed through July 20, 2026, the date on which the financial statements were available to be issued.

Change in accounting principle – In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset and a lessor is required to recognize a lease receivable and deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

When the District adopted GASB No. 87, the District elected the transition option to apply the new guidance as of that effective date without adjusting comparative periods presented. Adoption of the standard required the District to recognize a lease receivable and deferred inflow of resources of $40,177,963 as of July 1, 2021.

The District adopted GASB No. 87 during the year ended June 30, 2022. The District did not restate the financial statements for the year ended June 30, 2021, for GASB No. 87 due to insufficient resources available to do so and due to management's determination that the restatement would not provide significant benefit to the financial statement users.

Upcoming accounting standard pronouncements – In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this statement are to (1) define a subscription-based information technology arrangement (SBITA); (2) establish that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. The new guidance is effective for the District's year ended June 30, 2023.

In June 2022, the GASB issued Statement No. 101, *Compensated Absences*. The objective of this statement is to update the recognition and measurement guidance for compensated absences. The new guidance is effective for the District's year ending June 30, 2024. The statement is not expected to have an effect on the financial statements and related disclosures.

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements (continued) – In April 2024, the GASB issued Statement No. 103, *Financial Reporting Model Improvements*, which increases the usefulness of governments' financial statements by improving definitions and disclosures related to management's discussion and analysis, unusual or infrequent items, and nonoperating revenue. It also changes presentation requirements for component units and budgetary comparison information. These changes will improve the comparability of the financial statements. The new guidance is effective for the District's year ending June 30, 2026, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

2. Bank Deposits and Investments:

As of June 30, 2023 and 2022, the District had amounts on deposit in various financial institutions in the form of operating cash and cash equivalents. All of these funds were collateralized in accordance with the California Government Code (CGC), except for $250,000 per financial institution that is federally insured.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110 percent of the District's deposits. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

Investments may only be made in accordance with the principles of prudent investment management and in accordance with the provisions of the California Constitution Article XI §11 and Government Code §53600 et seq., (the Code), which sets forth the investment parameters for local agencies, including special districts, in California.

The District's investments were in compliance with the Code requirements for the years ended June 30, 2023 and 2022.

3. Investments:

The District's investment balances were entirely composed of investments in Local Agency Investment Funds, with a fair value of $3,543,675 and $3,483,263 as of June 30, 2023 and 2022, respectively, and are expected to mature within one year.

The District categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The District's investments are all Level 1 at June 30, 2023 and 2022.

The policy identifies certain provisions which address interest rate risk, credit risk, and concentration of credit risk.

3. Investments (continued):

Interest rate risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's exposure to interest rate risk is minimal, as 100 percent of their investments have a maturity of less than one year.

Credit risk – Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization such as Moody's Investor Service, Inc. The District's investments are in government investment funds which are not rated. The District believes that there is minimal credit risk with its investments at this time.

Custodial credit risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer), the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District's investments are generally held by banks or government agencies. The District believes there is minimal custodial credit risk with its investments at this time. District management monitors the entities which hold the various investments to ensure they remain in good standing.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District believes there is minimal concentration of credit risk at this time.

Assets limited as to use – Assets limited as to use as of June 30, 2023 and 2022, were comprised of cash and cash equivalents held by the County of Mendocino (the County) under a General Obligation bond agreement, held by a trustee under bond indenture agreements, and designated by the board for investment in Local Agency Investment Funds for board-determined use.

Assets limited as to use were comprised of the following:

	2023	**2022**
Board designated	**$ 3,543,675**	$ 3,483,263
Bond restricted for repayment of long-term debt	**723,743**	831,004
Bond restricted debt reserve account	**407,350**	407,350
Total assets limited as to use	**$ 4,674,768**	$ **4,721,617**

4. District Tax Revenues:

The County Treasurer acts as an agent to collect property taxes levied in the County for all taxing authorities. Taxes are levied annually and are due in equal installments on October 31 and February 1. Property taxes are recorded as revenue when levied. Since state law allows for sale of property for failure to pay taxes, no estimate of uncollectible taxes is made.

Beginning July 1, 2018, the County voted to approve a special tax of $144 per parcel for each parcel of taxable real property within the District each year for a period of 12 years, which is estimated to raise approximately $1,700,000 annually.

5. Lease Receivable:

The District entered into a lease agreement with Adventist Health on July 1, 2020. The lease agreement leases all the real property and permanently affixed equipment. The term of the lease is 30 years with an initial base rent of $1,750,000 for the first three years of the lease. The subsequent two years of the term, if the total earnings before interest, taxes, depreciation and amortization (EBITDA) from the Medical Business is equal to or greater than five percent (5%) of the net revenue for the previous period, the base rent will increase to $2,950,000; otherwise rent will remain at the initial base amount. In the sixth year of the term, regardless of the previous amount, the base rent will change to (or maintain at) $2,950,000 for the remaining periods. The lease contains a purchase option for Adventist Health to purchase the real property at fair market value after the third year of the lease. The District has committed to certain capital improvements including an initial investment of $2,000,000 into a restricted capital fund. This money will be used for capital improvements agreed upon by the District and Adventist Health, including becoming compliant with state law for seismic compliance by 2030.

Deferred inflows of resources have been recorded for the lease representing the future inflows of resources over the term of the lease. The deferred inflow of resources is recorded at the initiation of the lease in an amount equal to the initial recording of the lease receivable. The deferred inflow of resources is amortized on a straight-line basis over the term of the lease.

Schedule of future lease payments to be collected follows:

Years Ending June 30,	Principal	Interest	Total Payments
2024	$ -	$ 1,750,000	$ 1,750,000
2025	-	1,750,000	1,750,000
2026	-	2,950,000	2,950,000
2027	550,809	2,399,191	2,950,000
2028	895,943	2,054,057	2,950,000
2029-2033	5,256,461	9,493,539	14,750,000
2034-2038	6,830,415	7,919,585	14,750,000
2039-2043	8,875,662	5,874,338	14,750,000
2044-2048	11,533,322	3,216,678	14,750,000
2049-2050	5,528,404	371,596	5,900,000
	$ 39,471,016	**$ 37,778,984**	**$ 77,250,000**

Balances presented for the lease receivable in the statements of net position as June 30, 2023 and 2022, include an additional approximate $1,406,000 and $1,048,000 of accrued interest receivable for the lease, respectively.

6. Capital Assets:

The District capitalizes assets whose costs exceed $5,000 and have an estimated useful life of at least two years. Major expenses for capital assets, including repairs that increase the useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses as incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method.

Useful lives are estimated as follows:

Buildings and improvements	5-40 years
Equipment	3-20 years

Capital asset activity follows:

	Balance June 30, 2022	Additions	Retirements	Transfers	Balance June 30, 2023
Nondepreciable capital assets					
Land	$ 117,490	$ -	$ -	$ -	**$ 117,490**
Construction in progress	5,881,007	1,097,334	-	(1,920,977)	**5,057,364**
Total nondepreciable capital assets	5,998,497	1,097,334	-	(1,920,977)	**5,174,854**
Depreciable capital assets					
Buildings and improvements	25,246,865	-	-	1,478,458	**26,725,323**
Equipment	22,317,899	-	-	442,519	**22,760,418**
Total depreciable capital assets	47,564,764	-	-	1,920,977	**49,485,741**
Less accumulated depreciation for					
Buildings and improvements	(17,746,869)	(628,737)	-	-	**(18,375,606)**
Equipment	(19,570,877)	(582,799)	-	-	**(20,153,676)**
Total accumulated depreciation	(37,317,746)	(1,211,536)	-	-	**(38,529,282)**
Total depreciable capital assets, net	10,247,018	(1,211,536)	-	1,920,977	**10,956,459**
Capital assets, net of accumulated depreciation	**$ 16,245,515**	**$ (114,202)**	**$ -**	**$ -**	**$ 16,131,313**

6. Capital Assets (continued):

	Balance June 30, 2021	Additions	Retirements	Transfers	Balance June 30, 2022
Nondepreciable capital assets					
Land	$ 117,490	$ -	$ -	$ -	**$ 117,490**
Construction in progress	4,804,058	1,107,314	-	(30,365)	**5,881,007**
Total nondepreciable capital assets	4,921,548	1,107,314	-	(30,365)	**5,998,497**
Depreciable capital assets					
Building and improvements	25,246,865	-	-	-	**25,246,865**
Equipment	22,287,534	-	-	30,365	**22,317,899**
Total depreciable capital assets	47,534,399	-	-	30,365	**47,564,764**
Less accumulated depreciation for					
Building and improvements	(17,117,008)	(629,861)	-	-	**(17,746,869)**
Equipment	(18,860,775)	(710,102)	-	-	**(19,570,877)**
Total accumulated depreciation	(35,977,783)	(1,339,963)	-	-	**(37,317,746)**
Total depreciable capital assets, net	11,556,616	(1,339,963)	-	30,365	**10,247,018**
Capital assets, net of accumulated depreciation	**$ 16,478,164**	**$ (232,649)**	**$ -**	**$ -**	**$ 16,245,515**

Construction in progress – As of June 30, 2023, construction in progress consisted of the following projects:

	Estimated Completion Date	Total Budgeted Project Cost	Total Cost Incurred	Estimated Cost to Complete
Adventist Health construction fund	N/A	$ N/A	$ 2,601,871	$ N/A
AJ Gray Building bathroom and sewer	June 2024	35,185	34,448	737
Med Air replacement	June 2024	1,192,660	922,467	270,194
Auto transfer switch replacement	June 2025	1,730,812	1,429,644	301,168
Ice makers	June 2025	123,477	37,434	86,043
Lab equipment replacement	June 2025	557,655	31,130	526,525
Operating room HVAC	June 2025	403,298	370	402,928
Total costs		**$ 4,043,087**	**$ 5,057,364**	**$ 1,587,595**

7. Long-term Debt:

A schedule of changes in the District's long-term debt follows:

Bonds and Notes Payable	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Amounts Due Within One Year
Refunding Revenue Bonds, Series 2016	$ 3,295,000	$ -	$ (420,000)	$ **2,875,000**	$ 435,000
2000 General Obligation: Refunding Bonds, Series 2016	3,940,000	-	-	**3,940,000**	200,000
2000 General Obligation Capital Appreciation Bonds	112,423	-	(77,756)	**34,667**	34,667
United Healthcare note payable	420,000	-	(210,000)	**210,000**	210,000
HELP II loan	946,550	-	(160,516)	**786,034**	138,563
Premiums and discounts	482,087	-	(69,808)	**412,279**	-
Total long-term debt	$ 9,196,060	$ -	$ (938,080)	$ **8,257,980**	$ 1,018,230

Bonds and Notes Payable	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Amounts Due Within One Year
Refunding Revenue Bonds, Series 2016	$ 3,705,000	$ -	$ (410,000)	$ **3,295,000**	$ 420,000
2000 General Obligation: Refunding Bonds, Series 2016	3,940,000	-	-	**3,940,000**	-
2000 General Obligation Capital Appreciation Bonds	190,745	-	(78,322)	**112,423**	77,757
United Healthcare note payable	630,000	-	(210,000)	**420,000**	210,000
OSHPD CAL Mortgage	245,191	-	(245,191)	**-**	-
HELP II loan	1,091,667	-	(145,117)	**946,550**	148,045
Premiums and discounts	551,896	-	(69,809)	**482,087**	-
Total long-term debt	$ 10,354,499	$ -	$ (1,158,439)	$ **9,196,060**	$ 855,802

Aggregate annual principal and interest payments over the terms of long-term debt follow:

Years Ending June 30,	Long-term Debt Principal	Interest	Total
2024	$ 1,018,230	$ 477,865	$ 1,496,095
2025	984,082	185,551	1,169,633
2026	1,052,192	164,505	1,216,697
2027	1,120,365	140,975	1,261,340
2028	1,203,602	114,712	1,318,314
2029 - 2031	2,467,230	157,500	2,624,730
	$ 7,845,701	**$ 1,241,108**	**$ 9,086,809**

7. Long-term Debt (continued):

Refunding Revenue Bonds, Series 2016 – In July 2016, the District issued the Mendocino Coast Health Care District (Mendocino County, California) Insured Health Facility Refunding Revenue Bonds, Series 2016 in the amount of $5,745,000. The bond principal is payable yearly at various amounts from $410,000 to $625,000. Bond interest is payable semiannually at various rates from 3 percent to 5 percent. The bonds mature in 2029 and are payable solely from gross revenues and certain funds held under the Indenture. Repayment of the bonds is insured pursuant to a Contract of Insurance and a Regulatory Agreement through the California Health Facility Construction Loan Insurance Program administered by the Office of Statewide Health Planning and Development of the State of California (OSHPD).

2000 General Obligation: Refunding Bonds, Series 2016 and Capital Appreciation Bonds – In November 2016, the District issued $4,125,000 principal amount of general obligation bonds in order to refinance its General Obligation Bonds, Series 2000. Interest on the bonds is payable semiannually at rates ranging from 2.375 percent to 5 percent and principal maturities, ranging from $50,000 in 2023 to $645,000 in 2031, are due annually on August 1 of each year.

Bonds maturing on or after August 1, 2027, may be redeemed prior to maturity at the District's option. The redemption price is 100 percent. The bonds are general obligations of the District payable from ad valorem taxes. Payment of principal, interest and maturity value of the bonds, when due, are insured by a municipal bond insurance policy.

United Healthcare note payable – The District borrowed funds in the amount of $2,100,000 in April 2014 from United Healthcare under a program established to finance certain electronic medical records conversion and installation required by Centers for Medicare and Medicaid Services. The note carries an interest rate of 4 percent and principal payments of $210,000 are due annually in April through 2024.

OSHPD CAL Mortgage – The District borrowed a total of $1,005,806 from Cal Mortgage to replace a line of credit with a bank in the amount of $1,000,000 during the fiscal year ended June 30, 2013. This was done to help facilitate the District's bankruptcy filing. The note carried varying interest rates and payments including principal and interest ranging from $214,652 to $157,570 and were due monthly through March 2022.

The Agreement with the OSHPD sets out certain business covenants of the District, including maintenance, operation and management of facilities and limitations on encumbrances, assignment and transfer of any part of the facilities, and other matters. The Agreement also provides for the rights and obligations of the parties in the event of a default. Under the Agreement, the District has agreed to fix, charge, and collect such rates, fees, and charges which, together with all other receipts and revenues of the District, will produce a debt coverage ratio of at least 1.25 times the District's aggregate debt service for a fiscal year. The District met this requirement as of June 30, 2022. The promissory note requires the District to submit audited financial statements within 180 days of year end, which the District was not in compliance with for the fiscal years ended June 30, 2023 and 2022.

7. Long-term Debt (continued):

HELP II loan – The District has a promissory note payable to California Health Facilities Financing Authority for the sum of $1,500,000. The loan carries monthly interest and principal payments of $13,802 through July 2028. The promissory note requires the District to submit audited financial statements within 120 days of year end, which the District was not in compliance with for the fiscal years ended June 30, 2023 and 2022.

8. Third-party Settlements:

During the year ended June 30, 2023, the District recorded a contractual adjustment of approximately $423,000 related to the repayment of previously identified Medi-Cal overpayments. The repayment represents amounts determined to be owed to the Medi-Cal program as a result of prior-year reimbursement settlements and related adjustments.

Laws and regulations governing Medicare, Medi-Cal, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

9. Legacy Employee Benefit Expenses:

The District historically incurred employee-related costs in connection with the operation of the hospital. Effective July 1, 2020, the District transferred hospital operations to Adventist Health. Since that date, the District has had minimal ongoing employee-related activities, and employee benefit expense recognized in subsequent periods has related primarily to legacy obligations arising from periods in which the District operated the hospital.

Legacy employee benefit expenses consist principally of prior-period employee-related costs that were recognized in the statement of revenues, expenses, and changes in net position within operating expenses. For the years ended June 30, 2023 and 2022, these amounts included approximately $7,000 and $102,000 of disability-related salary payments, respectively, made through California's Employment Development Department for a prior employee. In addition, the District incurred certain other nonrecurring legacy obligations related to periods when it operated the hospital, including tail insurance coverage and similar items. Management believes these items are nonrecurring in nature and are not expected to continue other than through the resolution of any remaining obligations associated with prior periods.

At June 30, 2023 and 2022, the District had no defined benefit pension obligation and no other postretirement benefit obligation. Accordingly, legacy employee benefit expenses reflected in operating expenses relate only to residual obligations from prior periods of hospital operations and not to any ongoing defined benefit or other postretirement benefit arrangement.

10. Risk Management and Contingencies:

Medical malpractice claims – The District purchased malpractice tail liability insurance through Beta Healthcare Group. Beta offers the District a professional and general liability policy on a "claims-made" basis, with primary limits of $10,000,000 per claim and an annual aggregate of $20,000,000. The policy has a $1,000 deductible per claim.

No liability has been accrued for future coverage of acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year.

Tail coverage – Adventist Health obtained professional and general liability insurance policies for an unlimited extended reporting period so that the professional and general liability coverage was effectively converted to occurrence basis coverage from claims-made coverage as part of the lease agreement described in Note 1.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. 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. Management believes the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the District is found in violation of these laws, the District could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

11. Subsequent Events:

The District, in coordination with Adventist Health, advanced planning for a seismic compliance project to bring the hospital facilities into compliance with state seismic safety requirements by 2030. The project is expected to involve significant capital investment in structural and related facility improvements and will be funded through existing restricted capital resources and/or future financing arrangements. Because the planning and related commitments for this project occurred after June 30, 2023, the effects of the project are not reflected in the accompanying financial statements.

ACCOUNTANTS | ADVISORS

INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Mendocino Coast Health Care District
Fort Bragg, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Mendocino Coast Health Care District (the District), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated July 20, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of audit findings and responses as items 2023-001, 2023-002, and 2023-003 that we consider to be material weaknesses.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of audit findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DZA PLLC

Spokane Valley, Washington
July 20, 2026

Financial Statement Findings

2023-001 Auditor Detected Adjusting Journal Entries

Criteria	[ ] Compliance Finding [ ] Significant Deficiency [X] Material Weakness Financial statements are used by management and the Board of Directors to make decisions and need to accurately present the District's financial position.
Condition	Material adjustments were necessary to lease receivables and accounts payable to properly present the financial statements in accordance with generally accepted accounting principles. Adjustments not individually considered material were also proposed related to other revenue, prepaid expenses, and other expenses.
Context	This finding appears to be a *systemic* issue.
Cause	Accounting records are not being appropriately reconciled on a regular basis.
Effect	The accounting records were materially misstated at year end.
Recommendation	The District should reconcile all accounts on a monthly basis to ensure all balances match to the general ledger and implement a review process to ensure accurate reported balances.
Management's Response	The District expects to retain the services of a competent bookkeeping service.

Financial Statement Findings (continued)

2023-002 Internal Control Environment

Criteria	[ ] Compliance Finding [ ] Significant Deficiency [X] Material Weakness Those charged with governance are to provide oversight of financial reporting. The Board of Directors and management need accurate and timely financial reporting to oversee and manage the District.
Condition	The District's procedures such as account reconciliations and review and approval by the appropriate authority for transaction cycles are being performed; however, the District's internal controls still failed to prevent, detect, and correct material misstatements in the financial statements. Additionally, the District has not maintained supporting documents for all of the District's financial activity. As a result, the Board of Directors was not receiving accurate and timely financial reporting to use in its oversight of the District, and management was not receiving accurate and timely financial reporting to manage the District.
Context	This finding appears to be a *systemic* issue.
Cause	Internal controls are not being followed with sufficient diligence.
Effect	Material misstatements in the financial statements were undetected by management. The Board of Directors and management were not receiving accurate and timely financial reporting to perform their functions.
Recommendation	The District should evaluate each aspect of its policies and procedures. Individuals responsible for transaction cycles and accounting, and those individuals responsible for review and approval of transaction cycles, should be sufficiently educated and instructed to ensure internal controls are operating effectively.
Management's Response	Internal controls have been implemented and remain ongoing, including separation of duties and regular review processes.

Financial Statement Findings (continued)

2023-003 Governance

Criteria	[ ] Compliance Finding [ ] Significant Deficiency [X] Material Weakness Those charged with governance are to provide oversight to the District.
Condition	The Board of Directors failed to meet on a regular basis and, when they did, appropriate records of the meetings were not kept. In addition, the District was out of compliance with several requirements, including an annual audit, and the Board of Directors did not take appropriate action to remedy these situations.
Context	This finding appears to be a *systemic* issue.
Cause	The Board of Directors is not providing appropriate governance.
Effect	The District is out of compliance with bond covenants and state regulations.
Recommendation	The Board of Directors should begin meeting regularly and keeping records of the meetings. They also should attend training on state regulations and board education on their responsibilities as board members.
Management's Response	The District Board is undergoing governance training to address the deficiency. RGS consultants have helped correct and document compliance issues. Regular Board meetings with proper records have been implemented.

Mendocino Coast Health Care District
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023

2021-001 Auditor Detected Adjusting Journal Entries

Status:	Not corrected, repeated as 2023-001
Fiscal year of initial occurrence:	2021

2021-002 Internal Control Environment

Status:	Not corrected, repeated as 2023-002
Fiscal year of initial occurrence:	2021

2021-003 Governance

Status:	Not corrected, repeated as 2023-003
Fiscal year of initial occurrence:	2021