ACCOUNTANTS | ADVISORS

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

We have audited the financial statements of Mendocino Coast Health Care District (the District) for the years ended June 30, 2023 and 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 4, 2024. Professional standards also require that we communicate to you the following information related to our audit.

**Significant Audit Findings**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during 2022 and 2023. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

- Management's estimate for third-party settlements is based on interim payments, District expenses, patient revenues, and patient statistical data.
- Management's estimate of the amount payable to Adventist Health is based on information provided by a third-party analysis of cash transactions. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

The completion of the audit was delayed because a reconciled trial balance, supporting schedules, and other information was not gathered on a timely basis.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- Lease receivable and related deferred inflows of resources
- Amounts payable to Adventist Health and corresponding change in operating expense.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated July 20, 2026.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

In the audit planning process, we identify balances, transactions, and disclosures that require specific audit attention due to a combination of their inherent risks and significance to the financial statements. Management override of controls and revenue recognition receive specific audit attention in all audits.

We have identified the following for specific audit attention:

- Management override of controls.
- Intergovernmental transfer with the California Department of Health Care Services contains a risk of improper revenue recognition.
- Tax revenue contains a risk of improper revenue recognition.

- The absence of Board oversight over financials creates a risk of improper accounting due to fraud or error.
- The absence of accurate bookkeeping and accounting records in the audited periods increases the possibility that some accounts may have been incorrectly recorded.
- In the past, revenue bond activity was not recorded by the District. There is a risk the revenue bond activity was not accounted for appropriately.
- In the past, accurate capital asset information was not maintained by the District. There is a risk capital asset accounts may not be recorded properly.
- Implementation of the lease standard. There is a risk of leases and the related liabilities being improperly recorded.

**Restriction on Use**

This information is intended solely for the information and use of the Board of Directors and management of Mendocino Coast Health Care District and is not intended to be, and should not be, used by anyone other than these specified parties.

DZA PLLC

Spokane Valley, Washington
July 20, 2026