Mendocino Coast Health Care District

Basic Financial Statements and Independent Auditors' Reports

June 30, 2021 and 2020

DZA

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 basic financial statements of Mendocino Coast Health Care District (the District) as of and for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, 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, on July 1, 2020, the District transferred all hospital operations to Adventist Health. 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 accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 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 for the year ended June 30, 2021. 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
March 25, 2026

Mendocino Coast Health Care District
Statements of Net Position
June 30, 2021 and 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2021	2020
Current assets		
Cash and cash equivalents	**$ 24,140,970**	$ 8,314,306
Cash and cash equivalents restricted as to use	**728,362**	675,316
Investments limited as to use in local agency investment fund	**3,476,401**	3,456,956
Receivables:		
Patient accounts	**-**	5,526,900
Estimated third-party payor settlements	**2,095,797**	5,104,908
Other	**-**	758,803
Taxes	**182,043**	171,081
Inventories	**-**	1,013,423
Prepaid expenses	**-**	371,230
Total current assets	**30,623,573**	25,392,923
Noncurrent assets		
Cash and cash equivalents restricted as to use, less current portion	**407,350**	407,350
Nondepreciable capital assets	**4,921,548**	1,985,120
Depreciable capital assets, net	**11,556,616**	12,564,494
Total noncurrent assets	**16,885,514**	14,956,964
Deferred outflows of resources, bond refunding	**373,751**	422,501
Total assets and deferred outflows of resources	**$ 47,882,838**	$ 40,772,388

See accompanying notes to financial statements.

Mendocino Coast Health Care District
Statements of Net Position (Continued)
June 30, 2021 and 2020

LIABILITIES AND NET POSITION	2021	2020
Current liabilities		
Accounts payable	**$ 6,931**	$ 3,834,011
Payments due to Adventist Health	**16,763,618**	-
Accrued compensation and related liabilities	-	3,009,765
Unearned CARES Act Provider Relief Fund	-	5,811,277
Estimated third-party payor settlements	-	2,272,136
Accrued interest	**700,054**	874,424
Current maturities of long-term debt	**1,047,791**	1,083,601
Total current liabilities	**18,518,394**	16,885,214
Long-term debt, less current maturities	**9,306,708**	10,333,471
Total liabilities	**27,825,102**	27,218,685
Net position		
Net investment in capital assets	**7,127,416**	4,395,043
Restricted for debt service and reserve	**1,135,712**	1,082,666
Unrestricted	**11,794,608**	8,075,994
Total net position	**20,057,736**	13,553,703
Total liabilities and net position	**$ 47,882,838**	$ 40,772,388

See accompanying notes to financial statements.

Mendocino Coast Health Care District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2021 and 2020

	2021	2020
Operating revenues		
Net patient service revenue	**$ 534,823**	$ 58,589,538
Lease revenue	**1,750,000**	-
Other revenue	**217,719**	1,020,625
Total operating revenues	**2,502,542**	59,610,163
Operating expenses		
Salaries and wages	-	20,656,140
Employee benefits	-	6,312,780
Professional fees	**208,254**	9,644,912
Registry	-	6,687,945
Purchased services	**155,491**	1,692,269
Supplies	**5,260**	8,402,572
Depreciation	**1,357,741**	1,360,849
Repairs and maintenance	**679,119**	767,054
Utilities	-	889,067
Leases and rentals	**14,433**	780,169
Insurance	**1,447,249**	632,453
Other	**336,766**	1,738,540
Total operating expenses	**4,204,313**	59,564,750
Operating income	**(1,701,771)**	45,413
Nonoperating revenues (expenses)		
Taxation for operations	**2,487,769**	2,497,870
Taxation for debt service	**490,298**	479,263
CARES Act Provider Relief Fund	**5,811,277**	-
Interest expense	**(583,540)**	(572,858)
Total nonoperating revenues, net	**8,205,804**	2,404,275
Excess of revenues before capital contributions	**6,504,033**	2,449,688
Capital contributions	-	367,335
Change in net position	**6,504,033**	2,817,023
Net position, beginning of year	**13,553,703**	10,736,680
Net position, end of year	**$ 20,057,736**	$ 13,553,703

See accompanying notes to financial statements.

Mendocino Coast Health Care District
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Change in Cash and Cash Equivalents		
Cash flows from operating activities		
Receipts from and on behalf of patients	**$ 6,798,698**	$ 57,420,998
Receipts from lease agreements	**1,750,000**	-
Other receipts	**976,518**	1,395,718
Payments to and on behalf of employees	**(3,009,765)**	(27,151,016)
Payments to suppliers and contractors	**(5,288,999)**	(31,987,900)
Net cash from operating activities	**1,226,452**	(322,200)
Cash flows from noncapital financing activities		
Proceeds from CARES Act Provider Relief Fund	-	5,811,277
Payments received for Adventist Health	**16,763,618**	-
District tax receipts for maintenance and operations	**2,476,811**	2,519,390
Principal payments on long-term debt	**(210,000)**	(399,310)
Interest paid	**(27,300)**	(34,125)
Net cash from noncapital financing activities	**19,003,129**	7,897,232
Cash flows from capital and related financing activities		
District tax receipts for bond principal and interest	**490,298**	479,263
Capital contributions	-	367,335
Principal payments on long-term debt	**(782,765)**	(1,092,894)
Interest paid	**(751,668)**	(697,021)
Purchase of capital assets	**(3,286,291)**	(1,355,825)
Net cash from capital and related financing activities	**(4,330,426)**	(2,299,142)
Cash flows from investing activities		
Purchase of investments in local agency investment fund	**(19,445)**	-
Sale of investments in local agency investment fund	**-**	920,023
Net cash from investing activities	**(19,445)**	920,023
Net increase in cash and cash equivalents	**15,879,710**	6,195,913
Cash and cash equivalents, beginning of year	**9,396,972**	3,201,059
Cash and cash equivalents, end of year	**$ 25,276,682**	$ 9,396,972

See accompanying notes to financial statements.

Mendocino Coast Health Care District
Statements of Cash Flows (Continued)
Years Ended June 30, 2021 and 2020

		2021		2020
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position				
Cash and cash equivalents	**$**	**24,140,970**	$	8,314,306
Cash and cash equivalents restricted, current		**728,362**		675,316
Cash and cash equivalents restricted, long-term		**407,350**		407,350
Total cash and cash equivalents	**$**	**25,276,682**	$	9,396,972
Reconciliation of Operating Income (Loss) to Net Cash Used in Operating Activities				
Operating income	**$**	**(1,701,771)**	$	45,413
Adjustments to reconcile operating income (loss) to net cash used in operating activities				
Depreciation		**1,357,741**		1,360,849
Provision for bad debts		**(534,823)**		1,087,218
(Increase) decrease in assets:				
Receivables:				
Patient accounts		**6,061,723**		(1,781,637)
Estimated third-party payor settlements		**3,009,111**		(1,128,072)
Other		**758,799**		375,093
Inventories		**1,013,423**		(174,347)
Prepaid expenses		**371,230**		99,093
Increase (decrease) in liabilities:				
Accounts payable		**(3,827,080)**		(677,665)
Accrued compensation and related liabilities		**(3,009,765)**		(182,096)
Estimated third-party payor settlements		**(2,272,136)**		653,951
Net cash used in operating activities	**$**	**1,226,452**	$	(322,200)

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 hospital and offices are located in Fort Bragg, California.

The District has no significant component units.

Through the year ended June 30, 2020, the District operated a critical access hospital with 25 set-up acute-care beds. Services offered by the District included medical, swing bed, surgical, labor/delivery and nursery care, 24-hour emergency, laboratory, imaging services, orthopedics, oncology, physical therapy, home health, cardiac rehabilitation, and clinics. Members of the medical staff included specialists in emergency medicine, family practice, general surgery, radiology, and inpatient hospitalization.

Effective July 1, 2020, the District entered into a lease and transfer of business operations with Adventist Health Mendocino Coast (the Organization).

The transfer of business operations agreement transferred cash, investments, prepaid expenses, inventory, personal property (equipment and supplies both capitalized and previously expensed), leases, contracts, licenses, and records to the Organization. The District retained the assets related to patient accounts receivable, other receivables, cost report settlements, real property, and all liabilities (whether known or unknown) such as accounts payable, accrued payroll, debt, and cost report settlements. The District obtained malpractice tail coverage as part of the transfer. The sales price equals the book value of the prepaid assets and inventory and was estimated at approximately $830,000.

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 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 the Organization 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 with additional cash to be transferred according to the terms of the agreement. This money will be used for capital improvements agreed upon by the District and the Organization including becoming compliant with state law for Seismic Compliance by 2030. See Note 6 for the June 30, 2021, capital fund balance carried on the nondepreciable capital assets line on the statement of net position.

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

   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.

   Inventories – Inventories are stated at cost on the first-in, first-out method. Inventories consist of pharmaceutical, medical, surgical, and other supplies used in the operation of the District.

   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.

   Accrued compensated absences – The District's employees earn paid time off for vacation, holidays, and short-term illnesses based upon years of service. The related liability is accrued during the period in which it is earned. The District's policy is to permit employees to accumulate up to 400 hours of accrued compensated absences. The District may pay accrued vacation absences upon termination if proper notice and termination procedures are followed. As of June 30, 2021 and 2020, the District has an accrued compensated absence liability of $-0- and $1,157,000, respectively.

   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, 2021 and 2020, 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.

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

b. Summary of Significant Accounting Policies (continued)

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.

Reclassifications – Certain reclassifications have been made to the 2020 financial statements to conform to the classifications of the 2021 financial statements, with no effect on previously reported change in net position.

Subsequent events – Subsequent events have been reviewed through March 25, 2026, the date on which the financial statements were available to be issued.

Upcoming accounting standard pronouncements – 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 payable and a right-to-use asset, thereby enhancing the relevance and consistency of information about governments' leasing activities. The new guidance is effective for the District's year ending June 30, 2022, 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.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The new guidance is effective for the District's year ending June 30, 2022. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

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

   b. Summary of Significant Accounting Policies (continued)

   In May 2020, 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 ending June 30, 2023. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

2. **Bank Deposits and Investments:**

   As of June 30, 2021 and 2020, 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.

3. **Investments:**

   The District's investment balances were entirely composed of investments in Local Agency Investment Funds, with a fair value of $3,476,401 and $3,456,956 as of June 30, 2021 and 2020, 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; Level 3 inputs are significant unobservable inputs. The District's investments were all Level 1 at June 30, 2021 and 2020.

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

   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 its investments have a maturity of less than one year.

3. Investments (continued):

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 it remains 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, 2021 and 2020, 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:

		2021		2020
Board designated	**$**	**3,476,401**	$	3,456,956
Bond restricted for repayment of long-term debt		**728,362**		675,316
Bond restricted debt reserve account		**407,350**		407,350
Total assets limited as to use	**$**	**4,612,113**	$	**4,539,622**

4. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

4. Patient Accounts Receivable (continued):

For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District does not maintain a material allowance for uncollectible accounts from third-party payors nor did it have significant writeoffs from third-party payors.

The District had no patient accounts receivable as of June 30, 2021, due to the transfer of hospital operations to the Organization, as noted in Note 1.

Patient accounts receivable for the year ended June 30, 2020, reported as current assets consisted of these amounts:

		2020
Receivable from patients and their insurance carriers	$	4,475,100
Receivable from Medicare		2,288,886
Receivable from Medi-Cal		502,914
Total patient accounts receivable		7,266,900
Less allowance for uncollectible accounts		(1,740,000)
Patient accounts receivable, net	$	5,526,900

5. District Tax Revenues:

The Mendocino 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.

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. Donated 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, 2020	Additions	Retirements	Transfers	Balance June 30, 2021
Nondepreciable capital assets					
Land	$ 117,490	$ -	$ -	$ -	**$ 117,490**
Construction in progress	1,867,630	3,320,882	-	(384,454)	**4,804,058**
Total nondepreciable capital assets	1,985,120	3,320,882	-	(384,454)	**4,921,548**
Depreciable capital assets					
Building and improvements	25,215,842	-	-	31,023	**25,246,865**
Equipment	22,261,560	105,935	(433,392)	353,431	**22,287,534**
Total depreciable capital assets	47,477,402	105,935	(433,392)	384,454	**47,534,399**
Less accumulated depreciation for					
Building and improvements	(16,445,600)	(671,408)		-	**(17,117,008)**
Equipment	(18,467,308)	(686,333)	292,866	-	**(18,860,775)**
Total accumulated depreciation	(34,912,908)	(1,357,741)	292,866	-	**(35,977,783)**
Total depreciable capital assets, net	12,564,494	(1,251,806)	(140,526)	384,454	**11,556,616**
Capital assets, net of accumulated depreciation	$ 14,549,614	$ 2,069,076	$ (140,526)	$ -	**$ 16,478,164**

6. Capital Assets (continued):

	Balance June 30, 2019	Additions	Retirements	Transfers	Balance June 30, 2020
Nondepreciable capital assets					
Land	$ 117,490	$ -	$ -	$ -	**$ 117,490**
Construction in progress	1,602,687	270,796	-	(5,853)	**1,867,630**
Total nondepreciable capital assets	1,720,177	270,796	-	(5,853)	**1,985,120**
Depreciable capital assets					
Building and improvements	25,215,842	-	-	-	**25,215,842**
Equipment	21,170,678	1,085,029	-	5,853	**22,261,560**
Total depreciable capital assets	46,386,520	1,085,029	-	5,853	**47,477,402**
Less accumulated depreciation for					
Building and improvements	(15,770,983)	(674,617)	-	-	**(16,445,600)**
Equipment	(17,781,076)	(686,232)	-	-	**(18,467,308)**
Total accumulated depreciation	(33,552,059)	(1,360,849)	-	-	**(34,912,908)**
Total depreciable capital assets, net	12,834,461	(275,820)	-	5,853	**12,564,494**
Capital assets, net of accumulated depreciation	$ 14,554,638	$ (5,024)	$ -	$ -	**$ 14,549,614**

Construction in progress – As of June 30, 2021, construction in progress consisted of the following projects:

	Estimated Completion Date	Total Budgeted Project Cost	Total Cost Incurred	Estimated Cost to Complete
Auto Transfer Switch	June 2025	$ 1,730,812	$ 1,197,350	$ 533,462
Adventist Health Construction Fund	N/A	N/A	2,264,038	N/A
Operating Room HVAC	June 2023	1,419,658	1,267,952	151,706
Water Heater Replacement	June 2023	76,396	54,102	22,294
Med Air Replacement	June 2024	1,192,660	20,616	1,172,044
Total costs to complete		**$ 4,419,526**	**$ 4,804,058**	**$ 1,879,506**

7. Long-term Debt:

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

Bonds and Notes Payable	Balance June 30, 2020	Additions	Reductions	Balance June 30, 2021	Amounts Due Within One Year
Refunding Revenue Bonds, Series 2016	$ 4,105,000	$ -	$ (400,000)	**$ 3,705,000**	$ 410,000
2000 General Obligation: Refunding Bonds, Series 2016	3,990,000	-	(50,000)	**3,940,000**	50,000
2000 General Obligation Capital Appreciation Bonds	270,651	-	(79,905)	**190,746**	78,321
United Healthcare note	840,000	-	(210,000)	**630,000**	210,000
OSHPD CAL Mortgage	355,805	-	(110,615)	**245,190**	154,354
HELP II loan	1,233,912	-	(142,245)	**1,091,667**	145,116
Premiums and discounts	621,704	-	(69,808)	**551,896**	-
Total long-term debt	$ 11,417,072	$ -	$ (1,062,573)	**$ 10,354,499**	$ 1,047,791

Bonds and Notes Payable	Balance June 30, 2019	Additions	Reductions	Balance June 30, 2020	Amounts Due Within One Year
Refunding Revenue Bonds, Series 2016	$ 4,730,000	$ -	$ (625,000)	**$ 4,105,000**	$ 400,000
2000 General Obligation: Refunding Bonds, Series 2016	4,040,000	-	(50,000)	**3,990,000**	50,000
2000 General Obligation Capital Appreciation Bonds	349,114	-	(78,463)	**270,651**	79,905
United Healthcare note	1,050,000	-	(210,000)	**840,000**	210,000
OSHPD CAL Mortgage	555,805	-	(200,000)	**355,805**	201,451
Bankruptcy note payable	189,310	-	(189,310)	**-**	-
HELP II loan	1,373,343	-	(139,431)	**1,233,912**	142,245
Premiums and discounts	691,511	-	(69,807)	**621,704**	-

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

Years Ending June 30,	Long-term Debt		
	Principal	Interest	Total
2022	$ 1,047,791	$ 569,815	$ 1,617,606
2023	910,802	563,863	1,474,665
2024	1,065,701	405,949	1,471,650
2025	999,082	249,754	1,248,836
2026	1,057,192	217,863	1,275,055
2027 - 2031	4,722,035	439,027	5,161,062
	$ 9,802,603	**$ 2,446,271**	**$ 12,248,874**

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 (the 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).

7. Long-term Debt (continued):

2000 General Obligation: Refunding Bonds, Series 2016 & 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 5.000 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.

Bonds maturing on August 1, 2022, are subject to mandatory redemption, paid from a mandatory sinking fund in which the District will make annual payments through August 1, 2022, in amounts ranging from $35,000 to $55,000.

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 & 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 carries varying interest rates and payments including principal and interest ranging from $214,652 to $157,570 and are due monthly through March 2022.

The Agreement with 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, 2021. 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 year ended June 30, 2021.

Bankruptcy note payable – The District has a note payable related to amounts due to various vendors from the bankruptcy settlement. The settlement was fully repaid during the fiscal year ended June 30, 2020.

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 year ended June 30, 2021.

8. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. As disclosed in Note 1, effective July 1, 2020, the District transferred all hospital operations to the Organization. Therefore, the District has no patient service revenue to report for the year ended June 30, 2021. Amounts reported in patient service revenue for 2021 represent existing third-party settlement changes and residual adjustments and writeoffs of patient accounts.

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- ***Medicare*** – The District has been designated a critical access hospital by Medicare and is reimbursed for inpatient and outpatient services and rural health clinic visits on a cost basis as defined and limited by the Medicare program. Physician services outside the rural health clinic are paid on a fee schedule. Home health and hospice services are reimbursed on a prospective rate per episode of care. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

- ***Medi-Cal*** – Services to Medi-Cal beneficiaries are paid at prospectively determined rates per procedure or discharge. The rural health clinic is paid a prospective rate per encounter and updated annually for inflation.

The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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. Net patient service revenue increased by approximately $1,185,000 in 2021 due to differences between original estimates and final settlements or revised estimates. Net patient service revenue increased by approximately $635,000 in 2020 due to differences between original estimates and final settlements or revised estimates for supplemental payment programs.

9. Employees' Retirement Plans:

The District has a noncontributory, defined contribution pension plan which covers substantially all employees, the Mendocino Coast District Hospital Money Purchase Pension Plan (the Plan), which is administered by Transamerica. The District has the authority to amend the Plan. Assets of the Plan consist of a group of annuity contracts. The annual contribution made by the District is equal to approximately 5 percent of eligible employee salaries. Total pension expense for the year ended June 30, 2020, was $854,052. For the year ended June 30, 2020, the amounts owed to the Plan by the District were $869,989.

The District has a 403(b) salary savings plan (the 403(b) Plan) which is available to substantially all employees. The 403(b) Plan is wholly employee funded through regular deductions from wages and salaries. There is no provision for any matching or other such contributions by the District. Employee contributions to the plan for the year ended June 30, 2020, were $764,559.

With the transfer of hospital operations to the Organization in 2021, the District did not have employer or employee contributions to report for either the Plan or the 403(b) Plan.

10. CARES Act Provider Relief Fund:

The District received $5,811,277 of funding from the CARES Act Provider Relief Fund during the year ended June 30, 2020. These funds are required to be used to reimburse the District for healthcare-related expenses and lost revenues attributable to coronavirus. The District had recorded these funds as unearned grant revenue until eligible expenses or lost revenues are recognized. During the year ended June 30, 2021, the District recognized $5,811,277 of revenue from these funds.

11. 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 – The Organization 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.

11. Risk Management and Contingencies (continued):

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.

12. Mendocino Coast District Foundation:

The Mendocino Coast District Foundation (the Foundation) has been established as a nonprofit public benefit corporation to solicit contributions on behalf of the community in the Mendocino County coastal area. Funds raised, except for funds required for operation of the Foundation, are distributed to the District or held for the benefit of the District and other healthcare functions within the community. The Foundation's funds, which represent the Foundation's unrestricted resources, are donated to the District in amounts and in periods determined by the Foundation's Board of Trustees, who may also restrict the use of such funds for District property or equipment replacement, expansion, or other specific purposes.

The District received contributions from the Foundation in the amount of $-0- and $367,335 during the years ended June 30, 2021 and 2020, respectively. The Foundation's directors and computer equipment are covered under the District's general liability, directors and officers, and property insurance.

The Foundation's financial statements are not reported with the District's financial statements as the Foundation's operations are not material.

SINGLE AUDIT

AUDITORS' SECTION

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 basic financial statements of Mendocino Coast Health Care District (the District) as of and for the year ended June 30, 2021, 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 March 25, 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 questioned costs as items 2021-001, 2021-002, and 2021-003 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 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 questioned costs. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

DZA PLLC

Spokane Valley, Washington
March 25, 2026

ACCOUNTANTS | ADVISORS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for the Major Federal Program

Qualified Opinion on the Major Federal Program

We have audited Mendocino Coast Health Care District's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2021. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs.

Qualified Opinion on Assistance Listing Number 93.498 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2021.

Basis for Qualified Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

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Matter Giving Rise to Qualified Opinion on Assistance Listing Number 93.498 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

As described in the accompanying schedule of audit findings and questioned costs, the District did not comply with requirements as described in finding number 2021-004 for reporting.

Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of the major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

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

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of audit findings and questioned costs as item 2021-004 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of audit findings and questioned costs as item 2021-005 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of audit findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

DZA PLLC

Spokane Valley, Washington
March 25, 2026

Mendocino Coast Health Care District
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2021

Section I – Summary of Auditors' Results

Financial Statements:

Type of auditors' report issued:	***Unmodified***			
Internal control over financial reporting:				
• Material weakness(es) identified?	X	yes	___	no
• Significant deficiency(ies) identified?	___	yes	X	none reported
Noncompliance material to financial statements noted?	___	yes	X	no

Federal Awards:

Internal control over the major federal program:				
• Material weakness(es) identified?	X	yes	___	no
• Significant deficiency(ies) identified?	X	yes	___	no
Type of auditors' report issued on compliance for the major federal program:	***Qualified***			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	yes	___	no

Identification of major federal program:

Federal Assistance Listing Number	*Name of Federal Program or Cluster*
93.498	Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Dollar threshold used to distinguish between type A and type B programs:	$750,000			
Auditee qualified as low-risk auditee?	___	yes	X	no

Section II – Financial Statement Findings

2021-001 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 patient accounts receivable, the allowance for contractual adjustments and bad debts, capital assets, net position, accounts payable, accrued payroll and related liabilities, net patient service revenue, and salaries and wages to properly present the financial statements in accordance with generally accepted accounting principles. Adjustments not individually considered material also were proposed related to other receivables, inventories, prepaid expenses, and other expenses. This finding appears to be a *systemic* issue.
Cause	Accounting records are not being appropriately reconciled.
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.
Views of responsible officials and planned corrective action	The District expects to retain the services of a competent bookkeeping service.

Section II – Financial Statement Findings (continued)

2021-002 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. As a result, the Board of Directors and management were not receiving accurate and timely financial reporting to use in their oversight and management of the District, and management were not receiving accurate and timely financial reporting to manage the District. 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.
Views of responsible officials and planned corrective action	Internal controls have been implemented and remain ongoing, including separation of duties and regular review processes.

Section II – Financial Statement Findings (continued)

2021-003 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 meet, 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. 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.
Views of responsible officials and planned corrective action	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.

Section III – Federal Award Findings and Questioned Costs

2021-004	**Provider Relief Fund Reporting of Lost Revenue**
Federal Agency	Department of Health and Human Services
Federal Assistance Listing Number	93.498 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
Award Numbers	Not applicable
Criteria	[X] Compliance Finding [ ] Significant Deficiency [X] Material Weakness Under the terms and conditions of the award, the recipient certifies it will report actual net patient revenues for the periods reported on in its reporting of actual net patient revenues for its calculation of lost revenues due to coronavirus.
Condition	The District reported lost revenue for quarters after hospital operations ceased. The District's reported lost revenues also could not be reconciled to audited financial statements. As a result, net patient service revenues were not accurately reported. This finding appears to be an *isolated* problem.
Cause	The District did not maintain sufficient documentation supporting its calculation of lost revenues.
Effect	The District's lost revenues were not accurately reported. The District would still have sufficient healthcare-related expenses attributable to coronavirus to use all of the Provider Relief Fund amounts received. Therefore, there is no effect on the District's retention of the Provider Relief Funds.
Recommendation	We recommend the District's management correct its lost revenue calculation in subsequent period reporting for the Provider Relief Fund.
Views of responsible officials and planned corrective actions	The government program stopped accepting applications for grants in May 2021. The Provider Relief Funds were received during Period 1 and were to be reported in the portal by September 2021. No subsequent reporting will occur.

Section III – Federal Award Findings and Questioned Costs (continued)

2021-005	**Policies and Procedures for Federal Awards**
Federal Agency	U.S. Department of Health and Human Services
Federal Assistance Listing Numbers	93.498 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
Criteria	[ ] Compliance Finding [X] Significant Deficiency [ ] Material Weakness Recipients of federal awards should maintain written policies and procedures for the tracking and usage of federal awards.
Condition	The District did not have written procurement policies and procedures with all of the required elements for federal awards for the year ended June 30, 2021. This finding appears to be a systemic problem.
Cause	Management is still developing and implementing internal controls as of June 30, 2021.
Effect	There is a risk that federal funds may be expended out of conformity with federal regulations and compliance requirements.
Recommendation	We recommend the District write policies and procedures for the tracking and usage of federal awards that conform to federal regulations and compliance requirements.
Views of responsible officials and planned corrective actions	RGS Consultants have helped correct and document compliance issues.

AUDITEE'S SECTION

Mendocino Coast Health Care District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Additional Award Identification	Total Federal Expenditures
U.S. Department of Health and Human Services Direct Program:			
Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498	COVID-19	$5,761,836

Notes to the Schedule of Expenditures of Federal Awards

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Mendocino Coast Health Care District (the District), under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

Amounts reported on the Schedule for Federal Assistance Listing Number 93.498 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution are based upon the June 30, 2020, Provider Relief Fund report, which reimburses expenses incurred in prior fiscal year.

2. Summary of Significant Accounting Policies:

Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

MCHCD

MENDOCINO COAST HEALTH CARE DISTRICT

MCHCD provides a hospital and fosters leadership, advocacy and collaboration for our community health and well-being.

Mendocino Coast Health Care District
Corrective Action Plan
Year Ended June 30, 2021

The current year Schedule of Audit Findings and Questioned Costs reported three matters in Section II – *Financial Statement Findings* and two matters in Section III – *Federal Award Findings and Questioned Costs.*

Current year audit findings:

2021-001 Auditor Detected Adjusting Journal Entries

Views of responsible officials and corrective action planned:	Management agrees with the finding. See corrective action planned below.
Corrective action planned:	Since April 1, 2024, interim progress has been made. The District expects to retain the services of a competent bookkeeping service.
Anticipated completion date:	September 2025
Contact person responsible for corrective action:	Wayne Allen, CFO

2021-002 Internal Control Environment

Views of responsible officials and corrective action planned:	Management agrees with the finding. See corrective action planned below.
Corrective action planned:	Internal controls have been implemented and remain ongoing, including separation of duties and regular review processes.
Anticipated completion date:	July 2024 (this activity is an ongoing improvement process).
Contact person responsible for corrective action:	Wayne Allen, CFO

Mendocino Coast Health Care District
Corrective Action Plan (Continued)
Year Ended June 30, 2021

Current year audit findings (continued):
2021-003 Governance

Views of responsible officials and corrective action planned:	Management agrees with the finding. See corrective action planned below.
Corrective action planned:	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.
Anticipated completion date:	January 2024 (this activity is an ongoing improvement process).
Contact person responsible for corrective action:	Kathy Wylie, Agency Administrator

2021-004 Provider Relief Fund Reporting of Lost Revenue

Views of responsible officials and corrective action planned:	Management agrees with the finding. See corrective action planned below.
Corrective action planned:	The government program stopped accepting applications for grants in May 2021. The Provider Relief Funds were received during Period 1 and were to be reported in the portal by September 2021.
Anticipated completion date:	No subsequent reporting will occur.
Contact person responsible for corrective action:	Wayne Allen, CFO

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Mendocino Coast Health Care District
Corrective Action Plan (Continued)
Year Ended June 30, 2021

2021-005 Policies and Procedures for Federal Awards

Views of responsible officials and corrective action planned:	Management agrees with the finding. See corrective action planned below.
Corrective action planned:	RGS Consultants have helped correct and document compliance issues.
Anticipated completion date:	January 2024 (this activity is an ongoing improvement process).
Contact person responsible for corrective action:	Kathy Wylie, Agency Administrator

Mendocino Coast Health Care District
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2021

The audit for the year ended June 30, 2020, reported no audit findings, nor were there any unresolved findings from periods ended June 30, 2019, or prior. Therefore, there are no matters to report in this schedule for the year ended June 30, 2021.