

**Mendocino Coast Health Care District
doing business as
Mendocino Coast District Hospital**

Basic Financial Statements and
Independent Auditors' Report

June 30, 2018 and 2017



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
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DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Fort Bragg, California

Report on the Financial Statements

We have audited the accompanying financial statements of Mendocino Coast Health Care District doing business as Mendocino Coast District Hospital (the District) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2018 and 2017, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
November 30, 2018

**Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Management's Discussion and Analysis
June 30, 2018 and 2017**

Our discussion and analysis of Mendocino Coast Health Care District doing business as Mendocino Coast District Hospital's (the District) financial performance provides an overview of the District's financial activities for the years ended June 30, 2018 and 2017. Please read it in conjunction with the District's financial statements, which begin on page 8.

Financial Highlights

- The District's net position decreased by \$1.2 million or 13.8 percent in the fiscal year ended June 30, 2018 and decreased by \$0.7 million in the prior fiscal year ended June 30, 2017.
- The District reported an operating loss of \$2.4 million in the fiscal year ended June 30, 2018 and an operating loss of \$1.1 million in the prior fiscal year ended June 30, 2017. The operating loss in 2018 was a decrease in operating income of \$1.3 million from the 2017 prior year. The operating loss in 2017 was a decrease in operating income of \$3.2 million from the 2016 year.
- Nonoperating net revenues (expenses) increased by \$1.0 million in 2018 compared to 2017. Nonoperating net revenues (expenses) decreased by \$0.5 million in 2017 compared to 2016.

Using This Annual Report

Financial statements are uniformly designed and presented in conformity with the provisions of GAAP (generally accepted accounting principles), and necessary for the fair evaluation of operations and the financial position of the District when looked at by various stakeholders. By reading and understanding these financial statements, stakeholders can determine if the District has made or lost money, where the money went and how the District stands financially. The District's financial statements consist of three statements — a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows.

The Statement of Net Position

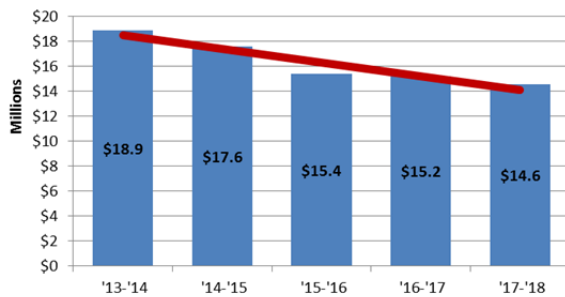
The following Table 1 summarizes the more detailed statement on pages 8 and 9. The District's net position is the difference between its assets and liabilities. The District's net position decreased by \$1.2 million or 13.8 percent in 2018 and decreased by \$0.7 million or 7.6 percent in 2017, an unfavorable trend of a decreasing net position.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Management’s Discussion and Analysis (Continued)
June 30, 2018 and 2017

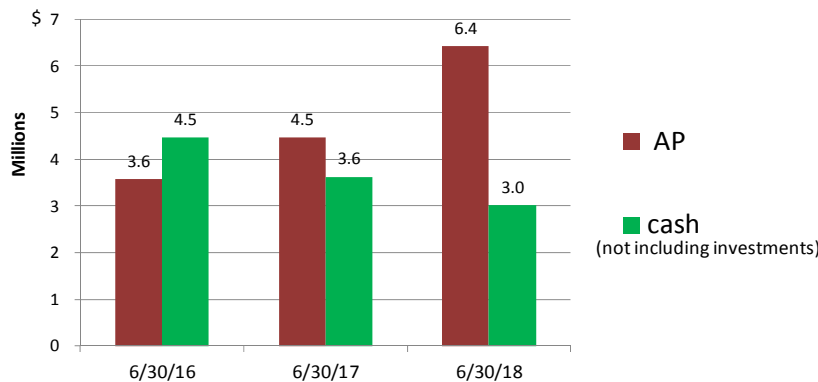
	2018	2017	2016
<i>Assets</i>			
Current assets	\$ 12,663,314	\$ 14,262,968	\$ 13,762,465
Investments limited as to use in local agency investment fund	4,280,051	4,226,086	3,998,601
Cash and cash equivalents restricted or limited as to use, less current portion	407,350	407,350	976,884
Capital assets, net	14,572,283	15,207,782	15,388,339
Total assets	31,922,998	34,104,186	34,126,289
<i>Deferred outflows of resources</i>	520,001	568,750	-
Total assets and deferred outflows of resources	\$ 32,442,999	\$ 34,672,936	\$ 34,126,289
<i>Liabilities</i>			
Current liabilities	\$ 13,364,768	\$ 12,984,246	\$ 11,248,007
Long-term debt, net of current maturities	11,486,238	12,885,393	13,350,618
Total liabilities	24,851,006	25,869,639	24,598,625
<i>Net position</i>			
Invested in capital assets, net of related debt	3,013,037	2,734,858	2,622,931
Unrestricted	4,578,956	6,068,439	6,904,733
Total net position	7,591,993	8,803,297	9,527,664
Total liabilities and net position	\$ 32,442,999	\$ 34,672,936	\$ 34,126,289
Current ratio (current assets/current liabilities)	0.9	1.1	1.2

The current ratio provides one measure of liquidity where higher values are favorable, comparing current assets to current liabilities. It is an indicator of the District having enough resources to meet its short-term obligations.

Capital Assets, net



“Net capital assets” is a line item in the assets section of the statements of net position. This graph indicates the decreasing trend in the District’s net capital assets (buildings and equipment). This trend suggests that the District is not keeping up in replacing its infrastructure.



AP (on the statements of net position) and cash (as detailed on the statements of cash flows) is graphically compared here. The relationship is that the decrease in cash is not due to a decrease in AP.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Management’s Discussion and Analysis (Continued)
June 30, 2018 and 2017

The Statement of Revenues, Expenses, and Changes in Net Position

Table 2 summarizes the more detailed statement on page 10. This statement provides annual financial performance, financial activities within a year. Financial performance is assessed by giving a summary of how the District incurred its revenues and expenses through both operating and nonoperating activities.

Table 2: Operating Results and Changes in the District's Net Position

	2018	2017	2016
<i>Operating revenues:</i>			
Net patient service revenue	\$ 53,639,509	\$ 51,866,507	\$ 52,426,560
Other operating revenue	812,600	673,437	1,295,482
Total operating revenues	54,452,109	52,539,944	53,722,042
<i>Operating expenses:</i>			
Salaries & Wages and Benefits	\$ 26,407,725	\$ 25,948,038	\$ 24,533,835
Registry	6,814,630	6,101,050	3,490,381
Total personnel cost	33,222,355	32,049,088	28,024,216
as a % of total operating revenues	61%	61%	52%
Supplies	8,472,046	8,314,818	8,222,292
Professional fees	7,875,143	6,570,308	6,920,688
All other	7,263,924	6,697,138	8,439,275
Total operating expenses	56,833,468	53,631,352	51,606,471
→ Operating income (loss)	(2,381,359)	(1,091,408)	2,115,571
Nonoperating revenues (expenses)	830,741	(192,270)	327,683
Capital contributions and gain on extinguishment of debt	339,314	559,311	914,044
Change in net position	\$ (1,211,304)	\$ (724,367)	\$ 3,357,298

The first component of the overall change in the District’s net position is its operating income—generally, the difference between net patient revenues and the expenses incurred to perform those services. The District reported an operating loss in both the years ended June 30, 2018 and June 30, 2017.

The District primarily provides its healthcare services through billing for those services. Healthcare reimbursement from various payers is much less than the gross charges; this difference allowing the differing payment methods from governmental and commercial insurance companies. Note 8 of the financial statements, net patient service revenues, goes into greater explanation. Net patient service revenues increased \$1.8 million or 3.4 percent in 2018 and increased \$0.6 million or 1.1 percent in 2017.

The District is service oriented, and as such, the largest expenditure of providing these healthcare services is the personnel cost. Compounding this cost is the nature of the services, requiring skilled and educated staff that is often in shortage both on a local and national level. The District also has a collective bargaining unit (union). Total personnel cost increased \$1.2 million or 3.7 percent in 2018 and increased \$4.0 million or 14.4 percent in 2017.

The District’s next largest operating cost is supplies. Healthcare supplies are characteristically expensive due to the nature of the services provided. The District belongs to a group purchasing organization in the process of mitigating these costs. Total supply cost increased \$0.2 million or 1.9 percent in 2018 and increased \$0.1 million or 1.1 percent in 2017.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Management’s Discussion and Analysis (Continued)
June 30, 2018 and 2017

The other primary expense components of these operating results are:

- An increase in professional fees of \$1.3 million or 19.9 percent in 2018, and a decrease of \$350,380 or 5.1 percent, in 2017.
- An increase in registry costs of \$0.7 million or 11.7 percent in 2018, and an increase of \$2.6 million or 74.8 percent, in 2017.
- An increase in purchased services costs of \$178,000 or 16.9 percent in 2018, and an increase of \$55,000 or 5.5 percent, in 2017.
- An increase in depreciation expense of \$55,000 or 3.8 percent in 2018, and a decrease of \$1.0 million or 40.6 percent in 2017.
- The District’s level of uncompensated care provided in 2018 was \$269,000 and \$68,000 in 2017, or 0.5 percent and 0.1 percent of gross revenue, respectively. These are services provided for which no payment is expected.

In summary, the operating loss in both 2018 and 2017 is due to operating expenses increasing more than net patient service revenue.

The Statement of Cash Flows

Table 3 summarizes the more detailed statements on pages 11 and 12. The statements of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as, “Where did cash come from?”, “What was cash used for?”, and “What was the change in cash balance during the reporting period?” There is an unfavorable decreasing trend in ending cash.

Table 3: Statements of Cash Flows

	2018	2017	2016
Beginning cash	\$ 3,622,886	\$ 4,460,648	\$ 3,183,967
Net cash provided by operating activities	563,104	1,446,007	2,511,149
Net cash provided by noncapital financing activities	277,969	461,788	762,506
Net cash used in capital and related financing activities	(1,402,853)	(2,518,072)	(1,982,545)
Net cash used in investing activities	(53,965)	(227,485)	(14,429)
Ending cash	\$ 3,007,141	\$ 3,622,886	\$ 4,460,648

The low level of net cash provided by operating activities in addition to the unfavorable decreasing trend of ending cash is of concern. Increasing net patient revenues and/or decreasing expenses will help improve the cash position.

Other Economic Factors

Competition from other hospitals and healthcare providers is a risk to the District’s revenue. New or existing organizations try to carve out profitable segments of the District’s business by expanding their marketing and/or facilities to meet the demand of healthcare in this area.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Management's Discussion and Analysis (Continued)
June 30, 2018 and 2017

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the finance department.

Mendocino Coast District Hospital
700 River Drive
Fort Bragg, California 95437

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Statements of Net Position
June 30, 2018 and 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2018	2017
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,806,804	\$ 2,691,381
Cash and cash equivalents restricted or limited as to use	792,987	524,155
Receivables:		
Patient accounts	5,152,985	6,603,536
Estimated third-party payor settlements	2,061,339	727,380
California Department of Health and Human Services	791,608	1,732,027
Other	756,296	555,975
Taxes	70,390	65,424
Inventories	811,360	833,535
Prepaid expenses	419,545	529,555
Total current assets	12,663,314	14,262,968
<i>Noncurrent assets</i>		
Investments limited as to use in local agency investment fund	4,280,051	4,226,086
Cash and cash equivalents restricted or limited as to use, less current portion	407,350	407,350
Capital assets, net	14,572,283	15,207,782
Total noncurrent assets	19,259,684	19,841,218
<i>Deferred outflows of resources, Bond refunding</i>	520,001	568,750
Total assets and deferred outflows of resources	\$ 32,442,999	\$ 34,672,936

See accompanying notes to basic financial statements.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Statements of Net Position (Continued)
June 30, 2018 and 2017

LIABILITIES AND NET POSITION	2018	2017
<i>Current liabilities</i>		
Accounts payable	\$ 6,422,501	\$ 4,472,609
Accrued compensation and related liabilities	2,843,613	2,890,935
Estimated third-party payor settlements	1,648,985	3,107,493
Accrued interest	1,120,700	1,193,974
Current maturities of long-term debt	1,328,969	1,319,235
Total current liabilities	13,364,768	12,984,246
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	11,486,238	12,885,393
Total liabilities	24,851,006	25,869,639
<i>Net position</i>		
Net investment in capital assets	3,013,037	2,734,858
Unrestricted	4,578,956	6,068,439
Total net position	7,591,993	8,803,297
Total liabilities and net position	\$ 32,442,999	\$ 34,672,936

See accompanying notes to basic financial statements

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
<i>Operating revenues</i>		
Net patient service revenue	\$ 53,639,509	\$ 51,866,507
Other revenue	812,600	673,437
Total operating revenues	54,452,109	52,539,944
<i>Operating expenses</i>		
Salaries and wages	19,922,700	19,351,726
Employee benefits	6,485,025	6,596,312
Professional fees	7,875,143	6,570,308
Registry	6,814,630	6,101,050
Purchased services	1,233,737	1,055,008
Supplies	8,472,046	8,314,818
Depreciation	1,511,526	1,456,629
Repairs and maintenance	937,924	876,336
Utilities	805,686	823,391
Leases and rentals	550,046	541,807
Insurance	541,866	505,474
Other	1,683,139	1,438,493
Total operating expenses	56,833,468	53,631,352
Operating loss	(2,381,359)	(1,091,408)
<i>Nonoperating revenues (expenses)</i>		
Taxation for operations	831,003	805,563
Taxation for debt service	512,895	332,592
Interest expense	(513,157)	(736,975)
Bond issuance costs	-	(593,450)
Total nonoperating revenues (expenses), net	830,741	(192,270)
Excess of expenses before capital contributions	(1,550,618)	(1,283,678)
<i>Capital contributions</i>	339,314	559,311
Change in net position	(1,211,304)	(724,367)
Net position, beginning of year	8,803,297	9,527,664
Net position, end of year	\$ 7,591,993	\$ 8,803,297

See accompanying notes to basic financial statements.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 53,238,012	\$ 51,967,588
Other receipts	612,279	232,424
Medicare electronic health records incentive	-	604,956
Payments to and on behalf of employees	(26,455,047)	(26,089,053)
Payments to suppliers and contractors	(26,832,140)	(25,269,908)
Net cash provided by operating activities	563,104	1,446,007
<i>Cash flows from noncapital financing activities</i>		
District tax receipts for maintenance and operations	826,037	800,778
Principal payments on long-term debt	(500,267)	(280,820)
Interest paid	(47,801)	(58,170)
Net cash provided by noncapital financing activities	277,969	461,788
<i>Cash flows from capital and related financing activities</i>		
District tax receipts for bond principal and interest	512,895	332,592
Capital contributions	339,314	559,311
Principal payments on long-term debt	(818,968)	(722,102)
Bond issuance costs	-	(593,450)
Interest paid	(560,067)	(818,351)
Purchase of capital assets	(876,027)	(1,276,072)
Net cash used in capital and related financing activities	(1,402,853)	(2,518,072)
<i>Cash flows from investing activities</i>		
Purchase of investments in local agency investment fund	(53,965)	(227,485)
Net cash used in investing activities	(53,965)	(227,485)
Net decrease in cash and cash equivalents	(615,745)	(837,762)
Cash and cash equivalents, beginning of year	3,622,886	4,460,648
Cash and cash equivalents, end of year	\$ 3,007,141	\$ 3,622,886

See accompanying notes to basic financial statements.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i>		
Cash and cash equivalents	\$ 1,806,804	\$ 2,691,381
Cash and cash equivalents restricted or limited as to use, current	792,987	524,155
Cash and cash equivalents restricted or limited as to use, long-term	407,350	407,350
Total cash and cash equivalents	\$ 3,007,141	\$ 3,622,886

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating loss	\$ (2,381,359)	\$ (1,091,408)
<i>Adjustments to reconcile operating loss to net cash provided by operating activities</i>		
Depreciation	1,511,526	1,456,629
Provision for bad debts	1,878,991	1,333,832
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(428,440)	(2,511,587)
Estimated third-party payor settlements	(1,333,959)	88,493
California Department of Health and Human Services	940,419	107,786
Medicare electronic health records incentive	-	604,956
Other	(200,321)	(441,013)
Inventories	22,175	(33,164)
Prepaid expenses	110,010	86,751
Increase (decrease) in liabilities:		
Accounts payable	1,949,892	903,190
Accrued compensation and related liabilities	(47,322)	(141,015)
Estimated third-party payor settlements	(1,458,508)	1,082,557
Net cash provided by operating activities	\$ 563,104	\$ 1,446,007

Noncash Financing Activities

During the year ended June 30, 2017, the District refunded its 1996, 2010, and a portion of its 2009 revenue bonds in the amount of \$5,745,000 with a premium of \$787,588 through the issuance of 2016 revenue bonds. The District also refunded its 2000 general obligation bonds in the amount of \$4,125,000 through the issuance of the 2016 general obligation bonds.

See accompanying notes to basic financial statements.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements
Years Ended June 30, 2018 and 2017

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

Mendocino Coast Health Care District doing business as Mendocino Coast District Hospital (the District) is comprised of two separate divisions, a hospital division and a home health/hospice division, both of which are wholly owned by the District, 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 generally 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 is a critical access hospital with 25 set-up acute-care beds. Services offered by the District include 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 include specialist in emergency medicine, family practice, general surgery, radiology, and inpatient hospitalization.

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 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 accounting principles generally accepted in the United States of America 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.

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 medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters.

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.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

Accrued compensated absences – The District’s employees earn paid time off (PTO) 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, 2018 and 2017, the District has an accrued compensated absence liability of \$1,173,087 and \$1,294,330, 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 no restricted net position as of June 30, 2018 and 2017. *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.

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 amounts have been reclassified in the 2017 financial statements in order to be consistent with the 2018 financial statements. These reclassifications had no effect on the previously reported change in net position.

Subsequent Events – Subsequent events have been reviewed through November 30, 2018, the date on which the financial statements were available to be issued.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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

b. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements – In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires a government entity with legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The determination of when a liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event obligating a government entity to perform asset retirement activities. This statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The new guidance is effective for the District's year ending June 30, 2019. 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 2017, the 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, 2021, 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 March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, to improve the information that is disclosed in governmental entity financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities government entities should include when disclosing information related to debt. The statement defines debt and requires additional essential information related to debt to be disclosed in the notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The new guidance is effective for the District's year ending June 30, 2019, 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.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

2. Bank Deposits and Investments:

As of June 30, 2018 and 2017, 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 and average maturities were as follows:

	2018					Investment Ratings
	Fair Value	Investment Maturities in Years				
		Less than 1	1 to 5	Over 5		
Investment in Local Agency Investment Funds	\$ 4,280,051	\$ 4,280,051	\$ -	\$ -		Not applicable
Total investments	\$ 4,280,051	\$ 4,280,051	\$ -	\$ -		

	2017					Investment Ratings
	Fair Value	Investment Maturities in Years				
		Less than 1	1 to 5	Over 5		
Investment in Local Agency Investment Funds	\$ 4,226,086	\$ 4,226,086	\$ -	\$ -		Not applicable
Total investments	\$ 4,226,086	\$ 4,226,086	\$ -	\$ -		

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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 had no investments subject to fair value measurements at June 30, 2018 or 2017.

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 their investments have a maturity of less than one year. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the preceding schedules that show the distribution of the District's investments by maturity.

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.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

3. Investments (continued):

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 their 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, 2018 and 2017, were comprised of cash and cash equivalents held by the County of Mendocino 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 Fund for board determined use. Interest income, dividends, and both realized and unrealized gains and losses on investments are recorded as investment income. Total investment income includes both income from operating cash and cash equivalents and cash and cash equivalents related to assets limited as to use.

Assets limited as to use were comprised of the following:

	2018	2017
Board designated for the participation in Medicaid supplemental payment programs	\$ 4,280,051	\$ 4,226,086
Board designated for repayment of long-term debt	792,987	524,155
Bond restricted for payment of long-term debt	407,350	407,350
Total assets limited as to use	\$ 5,480,388	\$ 5,157,591

4. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility 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. 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.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

4. Patient Accounts Receivable (continued):

The District's allowance for uncollectible accounts for self-pay patients did not change significantly from the prior year. 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.

Patient accounts receivable reported as current assets consisted of these amounts:

	2018	2017
Receivable from patients and their insurance carriers	\$ 4,697,861	\$ 5,302,121
Receivable from Medicare	1,766,877	1,821,394
Receivable from Medi-Cal	507,997	1,438,607
Total patient accounts receivable	6,972,735	8,562,122
Less allowance for uncollectible accounts	(1,819,750)	(1,958,586)
Patient accounts receivable, net	\$ 5,152,985	\$ 6,603,536

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.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

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, 2017	Additions	Retirements	Transfers	Balance June 30, 2018
<i>Capital assets not being depreciated</i>					
Land	\$ 117,490	\$ -	\$ -	\$ -	\$ 117,490
Construction in progress	1,137,652	647,081	-	(1,504,149)	280,584
Total capital assets not being depreciated	1,255,142	647,081	-	(1,504,149)	398,074
Building and improvements	25,215,842	-	-	-	25,215,842
Equipment	20,966,403	228,946	(59,301)	1,504,149	22,640,197
Total capital assets being depreciated	46,182,245	228,946	(59,301)	1,504,149	47,856,039
<i>Less accumulated depreciation for</i>					
Building and improvements	(14,172,324)	(810,596)	-	-	(14,982,920)
Equipment	(18,057,281)	(700,930)	59,301	-	(18,698,910)
Total accumulated depreciation	(32,229,605)	(1,511,526)	59,301	-	(33,681,830)
Total capital assets being depreciated, net	13,952,640	(1,282,580)	-	1,504,149	14,174,209
Capital assets, net of accumulated depreciation	\$ 15,207,782	\$ (635,499)	\$ -	\$ -	\$ 14,572,283

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

6. Capital Assets (continued):

	Balance June, 30 2016	Additions	Retirements	Transfers	Balance June 30, 2017
<i>Capital assets not being depreciated</i>					
Land	\$ 117,490	\$ -	\$ -	\$ -	\$ 117,490
Construction in progress	259,517	878,135	-	-	1,137,652
Total capital assets not being depreciated	377,007	878,135	-	-	1,255,142
<i>Capital assets being depreciated</i>					
Building and improvements	25,215,842	-	-	-	25,215,842
Equipment	21,416,984	397,937	(848,518)	-	20,966,403
Total capital assets being depreciated	46,632,826	397,937	(848,518)	-	46,182,245
<i>Less accumulated depreciation for</i>					
Building and improvements	(13,325,800)	(846,524)	-	-	(14,172,324)
Equipment	(18,295,694)	(610,105)	848,518	-	(18,057,281)
Total accumulated depreciation	(31,621,494)	(1,456,629)	848,518	-	(32,229,605)
Total capital assets being depreciated, net	15,011,332	(1,058,692)	-	-	13,952,640
Capital assets, net of accumulated depreciation	\$ 15,388,339	\$ (180,557)	\$ -	\$ -	\$ 15,207,782

Construction in Progress – As of June 30, 2018, construction in progress (CIP) consisted of an Auto Transfer Switch, an HVAC system, an Emergency Department Water Heater and the remaining grouped into various other projects. The estimated completion dates and budgeted remaining costs for the projects in CIP are as follows:

	Estimated Completion Date	Total Budgeted Project Cost	Total Cost Incurred	Estimated Cost to Complete
Auto Transfer Switch	March 2019	\$ 767,617	\$ 134,244	\$ 633,373
Parking Lot	On Hold	500,000	7,574	492,426
HVAC	March 2019	900,836	134,256	766,580
Emergency Department Water Heater	March 2019	57,007	4,510	52,497
Other various capital projects and equipment installations	2018 and 2019	8,000	-	8,000
Total costs to complete		\$ 2,233,460	\$ 280,584	\$ 1,952,876

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

7. Long-term Debt and Capital Lease Obligations:

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

<i>Bonds and Notes Payable</i>	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
LTGO bonds series 2016	\$ 4,125,000	\$ -	\$ (35,000)	\$ 4,090,000	\$ 50,000
LTGO bonds series 2000 - capital appreciation	507,741	-	(78,968)	428,773	79,659
2009 revenue bonds	470,000	-	(230,000)	240,000	240,000
2016 revenue bonds	5,440,000	-	(350,000)	5,090,000	360,000
United Healthcare note	1,470,000	-	(210,000)	1,260,000	210,000
CMS note	55,483	-	(55,483)	-	-
OSHPD CAL Mortgage	880,805	-	(125,000)	755,805	200,000
Bankruptcy payables	424,094	-	(234,784)	189,310	189,310
Premiums and discounts	831,505	-	(70,186)	761,319	-
Total long-term debt	\$ 14,204,628	\$ -	\$ (1,389,421)	\$ 12,815,207	\$ 1,328,969

<i>Bonds and Notes Payable</i>	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
LTGO bonds series 2000	\$ 3,940,000	\$ -	\$ (3,940,000)	\$ -	\$ -
LTGO bonds series 2016	-	4,125,000	-	4,125,000	35,000
LTGO bonds series 2000 - capital appreciation	585,503	-	(77,762)	507,741	78,968
1996 revenue bonds	1,095,000	-	(1,095,000)	-	-
2009 revenue bonds	3,835,000	-	(3,365,000)	470,000	230,000
2010 revenue bonds	2,140,000	-	(2,140,000)	-	-
2016 revenue bonds	-	5,745,000	(305,000)	5,440,000	350,000
United Healthcare note	1,680,000	-	(210,000)	1,470,000	210,000
CMS note	126,303	-	(70,820)	55,483	55,483
OSHPD CAL Mortgage	980,805	-	(100,000)	880,805	125,000
Bankruptcy payables	424,094	-	-	424,094	234,784
Premiums and discounts	(161,977)	787,588	205,894	831,505	-
Total long-term debt	\$ 14,644,728	\$ 10,657,588	\$ (11,097,688)	\$ 14,204,628	\$ 1,319,235

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

Years Ending June 30,	Long-term Debt		
	Principal	Interest	Total
2019	\$ 1,328,969	\$ 604,589	\$ 1,933,558
2020	1,163,463	575,931	1,739,394
2021	941,356	562,721	1,504,077
2022	902,675	549,307	1,451,982
2023	762,757	546,284	1,309,041
2024 - 2028	4,624,668	1,141,601	5,766,269
2029 - 2031	2,330,000	129,126	2,459,126
	\$ 12,053,888	\$ 4,109,559	\$ 16,163,447

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

7. Long-term Debt and Capital Lease Obligations (continued):

Refunding Revenue Bonds, Series 1996 – Bonds payable dated August 1, 1996, in the original amount of \$4,030,000, refunded in 2017 by the Refunding Revenue Bonds, Series 2016.

Refunding Revenue Bonds, Series 2009 – Bonds payable dated October 1, 2009, in the original amount of \$5,000,000, partially refunded in 2017 by the Refunding Revenue Bonds, Series 2016. The unfunded portion of the bond principal is payable in 2019 in the amount of \$240,000. Bond interest is payable semiannually at 5.3 percent.

Revenue Bonds, Series 2010 – Bonds payable dated July 1, 2010, in the original amount of \$2,875,000, refunded in 2017 by the Refunding Revenue Bonds, Series 2016.

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 \$350,000 to \$625,000. Bond interest is payable semiannually at various rates from 3.0 percent to 5.0 percent. The bonds mature in 2029 and are payable solely from gross revenues and certain funds held under the Indenture. The new debt issue will reduce debt service payments for the District by \$1,215,679 with an economic gain of \$503,246. 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).

General Obligation Bonds, Series 2000 – Bonds payable dated November 1, 2000, in the original amount of \$5,500,000, refunded in 2017 with the 2000 General Obligation Refunding Bonds, Series 2016.

2000 General Obligation Refunding Bonds, Series 2016 – 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. The new debt issues will reduce debt service payments for the District by \$579,368 with an economic gain of \$430,122.

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 on August 1, 2018, through August 1, 2022, in amounts ranging from \$35,000 to \$55,000.

United Healthcare Note – The District borrowed funds in the amount of \$2,100,000 in April 2014 from United Healthcare (UHC) under a program established to finance certain electronic medical records (EMR) conversion and installation required by CMS. The note carries an interest rate of 4.0 percent and principal payments of \$210,000 are due annually in April through 2024.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

7. Long-term Debt and Capital Lease Obligations (continued):

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 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 \$233,207 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 was not in compliance with the bond’s liquidity covenant and, as a result, OSHPD has the ability to require the District to engage a consultant to make recommendations on rates, fees, charges, and operations. OSHPD also has the ability to waive the engagement of a consultant upon OSHPD’s acceptance of an improvement plan submitted by the District.

CMS Payable – The District had a note payable to CMS related to a settlement for a self-reported Stark Law violation. This note was repaid during fiscal year ended June 30, 2018.

Bankruptcy Payable – The District has a note payable related to amounts due to various vendors from the bankruptcy settlement. The settlement was for \$900,884, and has a final payment of \$189,310 due in 2019.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

8. Net Patient Service Revenues:

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. The District's provision for bad debts and writeoffs increased from the prior year due to untimely billing caused by significant turnover in the business office. The District has not changed its charity care or uninsured discount policies during 2018. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2018	2017
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 31,655,763	\$ 29,615,447
Medi-Cal	4,530,030	6,960,660
Other third-party payors	14,444,611	13,324,526
Patients	1,840,649	1,304,491
Supplemental payments	3,316,703	2,063,239
	55,787,756	53,268,363
Less:		
Charity care	269,256	68,024
Provision for bad debts	1,878,991	1,333,832
Net patient service revenue	\$ 53,639,509	\$ 51,866,507

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 (RHC) is paid a prospective rate per encounter and updated annually for inflation.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

8. Net Patient Service Revenues (continued):

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, Med-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 \$70,000 and decreased by approximately \$76,000 in 2018 and 2017, respectively, due to differences between original estimates and final settlements or revised estimates. Net patient service revenue increased by approximately \$690,000 and decreased by approximately \$278,000 in 2018 and 2017, respectively, due to differences between original estimates and final settlements or revised estimates for supplemental payment programs.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended June 30, 2018 and 2017, were approximately \$131,000 and \$33,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2018 and 2017.

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 years ended June 30, 2018 and 2017, were \$834,849 and \$811,495, respectively. For the years ended June 30, 2018 and 2017, the amounts owed to the Plan by the District were \$860,213 and \$832,353, respectively.

The District has a 403(b) salary savings 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 years ended June 30, 2018 and 2017, were \$829,747 and \$748,761, respectively.

Mendocino Coast Health Care District
doing business as Mendocino Coast District Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

10. Risk Management and Contingencies:

Medical malpractice claims – The District purchases malpractice 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.

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. 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 \$339,314 and \$559,331 during the years ended June 30, 2018 and 2017, respectively. The District provides office space to the Foundation at no charge and the Foundation’s directors and computer equipment are covered under the District’s general liability, directors and officers, and property insurance.

Mendocino Coast Health Care District
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Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2018 and 2017

12. Concentrations of Credit Risk:

Patient accounts receivable – The District grants credit without collateral to its patients and residents, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Mendocino County.

The mix of receivables from patients was as follows:

	2018	2017
Medicare	42 %	33 %
Medicaid	18	22
Other third-party payors	28	28
Patients	12	17
	100 %	100 %

Physicians – The District is dependent on local physicians practicing in its service area to provide admissions and utilize District services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on District operations.

Collective Bargaining Unit – Effective July 1, 2016, the District renewed its contract with United Food & Commercial Workers Union 8-Golden State (the Union). The contract is effective through June 30, 2018. As of June 30, 2018 and 2017, 75 percent and 78 percent, respectively, of the Districts’ employees were represented by the Union.

13. Subsequent Events:

On July 16, 2018, the District entered into an agreement with the California Health Facilities Financing Authority to receive a \$1,500,000 loan that bears interest at 2 percent.

On September 28, 2018, the District entered into a software-as-a-service agreement with Meditech for its EXPANSE EHR (electronic health record) software. The District currently uses Meditech’s MAGIC EHR software that will no longer be supported in the near future. The District also currently uses other EHR software for the clinic that will be replaced with the new EXPANSE EHR, affording better interoperable processes District wide. The contract will cost \$700,000 in the fiscal year ending June 30, 2019, paying for the implementation for a “go live” of July 1, 2019.

The tax Measure C: Mendocino Coast Healthcare District Parcel Tax was passed on the June 5, 2018 ballot. The voters authorized the District to levy an annual \$144 parcel tax for the next twelve years. The first year of tax collection is July 1, 2018 to June 30, 2019, with the first installment due November 11, 2018, and the second installment due February 1, 2019, after which the District will receive the tax revenues from Mendocino County. There are restrictions on the expenditures of this tax revenue.