



DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

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

In planning and performing our audit of the financial statements of Mendocino Coast Health Care District doing business as Mendocino Coast District Hospital (the District) as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as described below, we identified deficiencies in internal control that we consider to be material weaknesses.

***Auditor detected adjustments*** – Numerous auditor detected adjustments were proposed by the audit team in order to correct the financial statements, related to the allowance for contractual adjustments and bad debts, patient accounts receivable, third-party settlements, Medicaid supplemental payments, and revenue bond activity. Adjustments should not be necessary in the audit process, and such adjustments indicate weakness in internal controls over financial reporting and preparation. As a result, financial statements being used by management and the Board for decision making purposes were not accurate. Adequate internal controls should be implemented to reconcile all accounts on the general ledger prior to the audit process. There should also be a review and approval of all manual journal entries and reconciliations by an individual who did not prepare the entry or reconciliation.

***Clinic receivables*** – The District's accounts receivable related to the clinic were not reconciled at year end. The District should have a process of reconciling balance to ensure accurate financial reporting. We recommend the implementation of a formal reconciliation and review process to ensure these are reconciled on a monthly basis.

### **Internal Controls**

During our audit, we also became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated July 22, 2021, on the financial statements of the District.

We will review the status of the comments during our next audit engagement. Our comments are summarized as follows:

Internal controls are deterrents to fraud and errors. The following internal control structure comments should be considered along with available resources, the cost, benefits of the particular control, and other mitigating controls. The inability to optimally segregate incompatible duties increases the importance of management's and the Board of Director's oversight in the internal control process. Although nothing has come to our attention that would lead us to believe fraud has occurred, we recommend the following procedures to help minimize the risk of errors and fraud in your organization:

- The District does not have updated and complete policies and procedures. Policies and procedures help ensure proper procedures are consistently followed and that new employees or temporary employees have adequate instruction to perform their tasks and follow proper internal control processes. We recommend all policies and procedures be reviewed and updated during the year.
- The District does not have a formal policy for reviewing manual journal entries or bank reconciliations. It was noted during the internal control walkthroughs that journal entries created and posted by the Controller were not being reviewed. We recommend the implementation of a formal review process to ensure all journal entries are reviewed after posted to the general ledger.

### **Lease Standard Implementation**

The District will be required to implement Governmental Accounting Standards Board Statement No. 87, *Leases* (or Financial Accounting Standards Board No. 2016-02, *Leases*), in the year ending June 30, 2021. The District will also be required to restate the year ending June 30, 2022, when implementing the new lease accounting standard. The District will need to be prepared to account for currently reported operating leases as capital leases on July 1, 2021.

We expect a material amount of lease obligations and the related assets will be added to the District's statement of net position in 2022.

We recommend the District develop and implement a plan to evaluate all leases during 2021. The implementation plan should include the following:

- Develop a system (spreadsheet or software) for monitoring leases.
- Prepare an inventory of all leased equipment and real estate.
- Review lease expense accounts while preparing the inventory.
- Develop written policies and procedures for all staff involved in equipment and real estate leases (accounting, department managers, purchasing, etc.).
- Review existing service and supplies agreements for implicit equipment leases (an example is a laboratory analyzer provided if a certain amount of reagents are purchased from a vendor) Develop a lease capitalization threshold. This would allow for leases with total payments under a certain dollar threshold to be expensed as paid (the current practice for operating leases).

The District has very significant real estate leases. Such leases often contain renewal options which will need to be evaluated to determine *if it is reasonably certain, based on all relevant factors*, that the lessee will exercise the option or not.

We can assist with the implementation of the new lease standard.

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

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
July 22, 2021

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

Basic Financial Statements and  
Independent Auditors' Report

June 30, 2020 and 2019



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
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## 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, 2020 and 2019, 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, 2020 and 2019, 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.

## **Emphasis of Matter – COVID-19 Pandemic**

As discussed in Note 14 to the financial statements, the COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 14. Our opinion is not modified with respect to this matter.

## **Other Matter**

### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the combined basic financial statements. Such missing information, although not a part of the combined 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 combined basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the combined basic financial statements is not affected by the missing information.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
July 22, 2021

**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Statements of Net Position**  
**June 30, 2020 and 2019**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>2020</b>	<b>2019</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 8,314,306	\$ 2,038,841
Cash and cash equivalents restricted as to use	675,316	754,868
Receivables:		
Patient accounts	5,526,900	4,832,481
Estimated third-party payor settlements	5,104,908	3,976,836
Other	758,803	1,133,896
Taxes	171,081	192,601
Inventories	1,013,423	839,076
Prepaid expenses	371,230	470,323
Total current assets	21,935,967	14,238,922
<i>Noncurrent assets</i>		
Investments limited as to use in local agency investment fund	3,456,956	4,376,979
Cash and cash equivalents restricted as to use, less current portion	407,350	407,350
Capital assets, net	14,549,614	14,554,638
Total noncurrent assets	18,413,920	19,338,967
<i>Deferred outflows of resources, bond refunding</i>	422,501	471,251
<b>Total assets and deferred outflows of resources</b>	<b>\$ 40,772,388</b>	<b>\$ 34,049,140</b>

*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, 2020 and 2019**

<b>LIABILITIES AND NET POSITION</b>	<b>2020</b>	<b>2019</b>
<i>Current liabilities</i>		
Accounts payable	\$ 3,834,011	\$ 4,511,676
Accrued compensation and related liabilities	3,009,765	3,191,861
Unearned CARES Act Provider Relief Fund	5,811,277	-
Estimated third-party payor settlements	2,272,136	1,618,185
Accrued interest	874,424	1,011,655
Current maturities of long-term debt	1,083,601	1,492,204
Total current liabilities	<b>16,885,214</b>	11,825,581
Long-term debt, less current maturities	<b>10,333,471</b>	11,486,879
Total liabilities	<b>27,218,685</b>	23,312,460
<i>Net position</i>		
Net investment in capital assets	3,520,619	2,274,461
Restricted for debt service and reserve	1,082,666	1,162,218
Unrestricted	8,950,418	7,300,001
Total net position	<b>13,553,703</b>	10,736,680
<b>Total liabilities and net position</b>	<b>\$ 40,772,388</b>	<b>\$ 34,049,140</b>

*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, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<i>Operating revenues</i>		
Net patient service revenue	\$ 58,589,538	\$ 58,142,969
Other revenue	1,020,625	911,354
<b>Total operating revenues</b>	<b>59,610,163</b>	<b>59,054,323</b>
<i>Operating expenses</i>		
Salaries and wages	20,656,140	21,015,322
Employee benefits	6,312,780	6,291,887
Professional fees	9,644,912	7,885,520
Registry	6,687,945	6,435,009
Purchased services	1,692,269	1,936,630
Supplies	8,402,572	9,044,465
Depreciation	1,360,849	1,481,931
Repairs and maintenance	767,054	817,116
Utilities	889,067	880,404
Leases and rentals	780,169	650,751
Insurance	632,453	535,214
Other	1,738,540	1,580,271
<b>Total operating expenses</b>	<b>59,564,750</b>	<b>58,554,520</b>
<b>Operating income</b>	<b>45,413</b>	<b>499,803</b>
<i>Nonoperating revenues (expenses)</i>		
Taxation for operations	2,497,870	2,594,047
Taxation for debt service	479,263	476,848
Interest expense	(572,858)	(548,102)
Loss on disposal of assets	-	(66,338)
<b>Total nonoperating revenues, net</b>	<b>2,404,275</b>	<b>2,456,455</b>
<b>Excess of revenues before capital contributions</b>	<b>2,449,688</b>	<b>2,956,258</b>
<i>Capital contributions</i>	<b>367,335</b>	<b>188,429</b>
<b>Change in net position</b>	<b>2,817,023</b>	<b>3,144,687</b>
<b>Net position, beginning of year</b>	<b>10,736,680</b>	<b>7,591,993</b>
<b>Net position, end of year</b>	<b>\$ 13,553,703</b>	<b>\$ 10,736,680</b>

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, 2020 and 2019**

	2020	2019
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 57,420,998	\$ 57,308,784
Other receipts	1,395,718	533,754
Payments to and on behalf of employees	(27,151,016)	(26,958,961)
Payments to suppliers and contractors	(31,987,900)	(31,754,699)
Net cash used in operating activities	(322,200)	(871,122)
<i>Cash flows from noncapital financing activities</i>		
Proceeds from CARES Act Provider Relief Fund	5,811,277	-
District tax receipts for maintenance and operations	2,519,390	2,471,836
Principal payments on long-term debt	(399,310)	(210,000)
Interest paid	(34,125)	(47,801)
Net cash provided by noncapital financing activities	7,897,232	2,214,035
<i>Cash flows from capital and related financing activities</i>		
District tax receipts for bond principal and interest	479,263	476,848
Capital contributions	367,335	188,429
Principal payments on long-term debt	(1,092,894)	(1,056,316)
Proceeds from issuance of long-term debt	-	1,500,000
Interest paid	(697,021)	(630,404)
Purchase of capital assets	(1,355,825)	(1,530,624)
Net cash used in capital and related financing activities	(2,299,142)	(1,052,067)
<i>Cash flows from investing activities</i>		
Sale of investments in local agency investment fund	920,023	-
Purchase of investments in local agency investment fund	-	(96,928)
Net cash provided by (used in) investing activities	920,023	(96,928)
Net increase in cash and cash equivalents	6,195,913	193,918
Cash and cash equivalents, beginning of year	3,201,059	3,007,141
<b>Cash and cash equivalents, end of year</b>	<b>\$ 9,396,972</b>	<b>\$ 3,201,059</b>

*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, 2020 and 2019**

	2020	2019
<b><i>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position</i></b>		
Cash and cash equivalents	\$ 8,314,306	\$ 2,038,841
Cash and cash equivalents restricted, current	675,316	754,868
Cash and cash equivalents restricted, long-term	407,350	407,350
<b>Total cash and cash equivalents</b>	<b>\$ 9,396,972</b>	<b>\$ 3,201,059</b>
<b><i>Reconciliation of Operating Income to Net Cash Used in Operating Activities</i></b>		
Operating income	\$ 45,413	\$ 499,803
<i>Adjustments to reconcile operating income to net cash used in operating activities</i>		
Depreciation	1,360,849	1,481,931
Provision for bad debts	1,087,218	779,129
(Increase) decrease in assets:		
Receivables:		
Patient accounts	(1,781,637)	(458,625)
Estimated third-party payor settlements	(1,128,072)	(1,123,889)
Other	375,093	(377,600)
Inventories	(174,347)	(27,716)
Prepaid expenses	99,093	(50,778)
Increase (decrease) in liabilities:		
Accounts payable	(677,665)	(1,910,825)
Accrued compensation and related liabilities	(182,096)	348,248
Estimated third-party payor settlements	653,951	(30,800)
<b>Net cash used in operating activities</b>	<b>\$ (322,200)</b>	<b>\$ (871,122)</b>

*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, 2020 and 2019**

**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 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.

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

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 Adventist Health Mendocino Coast. 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 as 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 (EBITDA) from the Medical Business is equal to or greater than five percent (5%) of the net revenue for the previous period, the base rent will increase to \$2,950,000; otherwise rent will remain at the initial base amount. In the sixth year of the term, regardless of the previous amount, the base rent will change to (or maintain at) \$2,950,000 for the remaining periods. The lease contains a purchase option for 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. This money will be used for capital improvements agreed up on by the District and the Organization including becoming compliant with State law for Seismic Compliance by 2030.

**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.

**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

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

**b. Summary of Significant Accounting Policies**

*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.

*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 (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, 2020 and 2019, the District has an accrued compensated absence liability of \$1,157,000 and \$1,149,244, 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, 2020 and 2019 related 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.

*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.

**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

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

**b. Summary of Significant Accounting Policies (continued)**

**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 2019 financial statements to conform to the classifications of the 2020 financial statements, with no effect on previously reported change in net position.

**Subsequent events** – Subsequent events have been reviewed through July 22, 2021, 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, the 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 June 30, 2022. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

**2. Bank Deposits and Investments:**

As of June 30, 2020 and 2019, 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:

	2020					Investment Ratings
	Fair Value	Investment Maturities in Years				
		Less than 1	1 to 5	Over 5		
Investment in Local Agency Investment Funds	\$ 3,456,956	\$ 3,456,956	\$ -	\$ -		Not applicable
Total investments	\$ 3,456,956	\$ 3,456,956	\$ -	\$ -		

	2019					Investment Ratings
	Fair Value	Investment Maturities in Years				
		Less than 1	1 to 5	Over 5		
Investment in Local Agency Investment Funds	\$ 4,376,979	\$ 4,376,979	\$ -	\$ -		Not applicable
Total investments	\$ 4,376,979	\$ 4,376,979	\$ -	\$ -		

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, 2020 or 2019.

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.



**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

**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 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, 2020 and 2019, 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.

Assets limited as to use were comprised of the following:

	2020	2019
Board designated for the participation in Medicaid supplemental payment programs	\$ 3,456,956	\$ 4,376,979
Bond restricted for repayment of long-term debt	675,316	754,868
Bond restricted debt reserve account	407,350	407,350
Total assets limited as to use	\$ 4,539,622	\$ 5,539,197

**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

**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.

The District's allowance for uncollectible accounts for self-pay patients decreased from the prior year due to accounts becoming more current. 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:

	<b>2020</b>	<b>2019</b>
Receivable from patients and their insurance carriers	\$ 4,475,100	\$ 4,634,559
Receivable from Medicare	2,288,886	2,278,826
Receivable from Medi-Cal	502,914	620,716
Total patient accounts receivable	<b>7,266,900</b>	7,534,101
Less allowance for uncollectible accounts	(1,740,000)	(2,701,620)
<b>Patient accounts receivable, net</b>	<b>\$ 5,526,900</b>	<b>\$ 4,832,481</b>

**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

**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 twelve 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. 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:

	<b>Balance June 30, 2019</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2020</b>
<i>Capital assets not being depreciated</i>					
Land	\$ 117,490	\$ -	\$ -	\$ -	\$ 117,490
Construction in progress	1,602,687	270,796	-	(5,853)	1,867,630
Total capital assets not being depreciated	1,720,177	270,796	-	(5,853)	1,985,120
<i>Capital assets being depreciated</i>					
Building and improvements	25,215,842	-	-	-	25,215,842
Equipment	21,170,678	1,085,029	-	5,853	22,261,560
Total capital assets being depreciated	46,386,520	1,085,029	-	5,853	47,477,402
<i>Less accumulated depreciation for</i>					
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 capital assets being depreciated, net	12,834,461	(275,820)	-	5,853	12,564,494
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 14,554,638</b>	<b>\$ (5,024)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,549,614</b>

**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

**6. Capital Assets (continued):**

	Balance June 30, 2018	Additions	Retirements	Transfers	Balance June 30, 2019
<i>Capital assets not being depreciated</i>					
Land	\$ 117,490	\$ -	\$ -	\$ -	\$ 117,490
Construction in progress	280,584	1,456,217	-	(134,114)	1,602,687
Total capital assets not being depreciated	398,074	1,456,217	-	(134,114)	1,720,177
<i>Capital assets being depreciated</i>					
Building and improvements	25,215,842	-	-	-	25,215,842
Equipment	22,640,197	74,407	(1,678,040)	134,114	21,170,678
Total capital assets being depreciated	47,856,039	74,407	(1,678,040)	134,114	46,386,520
<i>Less accumulated depreciation for</i>					
Building and improvements	(14,982,920)	(788,063)	-	-	(15,770,983)
Equipment	(18,698,910)	(693,868)	1,611,702	-	(17,781,076)
Total accumulated depreciation	(33,681,830)	(1,481,931)	1,611,702	-	(33,552,059)
Total capital assets being depreciated, net	14,174,209	(1,407,524)	(66,338)	134,114	12,834,461
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 14,572,283</b>	<b>\$ 48,693</b>	<b>\$ (66,338)</b>	<b>\$ -</b>	<b>\$ 14,554,638</b>

**Construction in progress** – As of June 30, 2020, 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	December 2021	\$ 1,314,308	\$ 807,308	\$ 507,000
HVAC	December 2021	1,409,847	975,847	434,000
Emergency Department Water Heater	December 2021	123,452	53,452	70,000
Oncology Department Remodel	December 2021	111,137	13,137	98,000
Cardiology Building Remodel	December 2021	267,886	17,886	250,000
<b>Total costs to complete</b>		<b>\$ 3,226,630</b>	<b>\$ 1,867,630</b>	<b>\$ 1,359,000</b>

**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

**7. Long-term Debt:**

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

<i>Bonds and Notes Payable</i>	<b>Balance June 30, 2019</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2020</b>	<b>Amounts Due Within One Year</b>
General Obligation bonds series 2016	\$ 4,040,000	\$ -	\$ (50,000)	\$ 3,990,000	\$ 50,000
General Obligation bonds series 2000	349,114	-	(78,463)	270,651	79,905
2016 revenue bonds	4,730,000	-	(625,000)	4,105,000	400,000
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	-
<b>Total long-term debt</b>	<b>\$ 12,979,083</b>	<b>\$ -</b>	<b>\$ (1,562,011)</b>	<b>\$ 11,417,072</b>	<b>\$ 1,083,601</b>

<i>Bonds and Notes Payable</i>	<b>Balance June 30, 2018</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2019</b>	<b>Amounts Due Within One Year</b>
General Obligation bonds series 2016	\$ 4,090,000	\$ -	\$ (50,000)	\$ 4,040,000	\$ 50,000
General Obligation bonds series 2000	428,773	-	(79,659)	349,114	78,463
2009 revenue bonds	240,000	-	(240,000)	-	-
2016 revenue bonds	5,090,000	-	(360,000)	4,730,000	625,000
United Healthcare note	1,260,000	-	(210,000)	1,050,000	210,000
OSHPD CAL Mortgage	755,805	-	(200,000)	555,805	200,000
Bankruptcy note payable	189,310	-	-	189,310	189,310
HELP II loan	-	1,500,000	(126,657)	1,373,343	139,431
Premiums and discounts	761,319	-	(69,808)	691,511	-
<b>Total long-term debt</b>	<b>\$ 12,815,207</b>	<b>\$ 1,500,000</b>	<b>\$ (1,336,124)</b>	<b>\$ 12,979,083</b>	<b>\$ 1,492,204</b>

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

<b>Years Ending June 30,</b>	<b>Long-term Debt</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 1,083,601	\$ 586,100	\$ 1,669,701
2022	1,047,792	569,815	1,617,607
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 - 2030	5,043,390	644,796	5,688,186
2031	645,000	12,094	657,094
	<b>\$ 10,795,368</b>	<b>\$ 3,032,371</b>	<b>\$ 13,827,739</b>

**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

**7. Long-term Debt (continued):**

***Refunding Revenue Bonds, Series 2016*** – In July 2016, the District issued the Mendocino Coast Health Care District (Mendocino County, California) Insured Health Facility Refunding Revenue Bonds, Series 2016 in the amount of \$5,745,000. The bond principal is payable yearly at various amounts from \$400,000 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. Repayment of the bonds is insured pursuant to a Contract of Insurance and a Regulatory Agreement through the California Health Facility Construction Loan Insurance Program administered by the Office of Statewide Health Planning and Development of the State of California (OSHPD).

***2000 General Obligation Refunding Bonds, Series 2016*** – 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 on August 1, 2018 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 (CMS). The note carries an interest rate of 4.0 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 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 the Office of Statewide Health Planning and Development (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, 2020. The promissory note requires the District to submit audited financial statements within 180 days of year end, which the District was not in compliance for the fiscal year ended June 30, 2020.

***Bankruptcy Note Payable*** – The District has a note payable related to amounts due to various vendors from the bankruptcy settlement. The settlement was for \$900,884, this note was repaid during fiscal year ended June 30, 2020.

**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

**7. Long-term Debt (continued):**

**HELP II Loan** – The District has a promissory note payable to California Health Facilities Financing Authority for the sum of \$1,500,000. The loan carries monthly interest and principal payments of \$13,802 through July 2028. The promissory note requires the District to submit audited financial statements within 120 days of year end, which the District was not in compliance with for the fiscal year ended June 30, 2020.

**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 have not changed significantly from prior years. The District has not changed its charity care or uninsured discount policies during 2020. 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:

	<b>2020</b>	<b>2019</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 36,123,053	\$ 41,023,992
Medi-Cal	6,691,705	2,830,314
Other third-party payors	12,327,415	10,958,113
Patients	1,987,224	1,411,209
Supplemental payments	2,734,602	3,186,231
	<b>59,863,999</b>	<b>59,409,859</b>
Less:		
Charity care	187,243	487,761
Provision for bad debts	1,087,218	779,129
<b>Net patient service revenue</b>	<b>\$ 58,589,538</b>	<b>\$ 58,142,969</b>

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.

**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

**8. Net Patient Service Revenues (continued):**

- **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, 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 \$615,000 and \$930,000 in 2020 and 2019, respectively, due to differences between original estimates and final settlements or revised estimates. Net patient service revenue increased by approximately \$635,000 and \$1,500,000 in 2020 and 2019, 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, 2020 and 2019, were approximately \$102,000 and \$243,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2020 and 2019.

**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, 2020 and 2019, were \$854,052 and \$841,369, respectively. For the years ended June 30, 2020 and 2019, the amounts owed to the Plan by the District were \$869,989 and \$877,969, respectively.

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 years ended June 30, 2020 and 2019, were \$764,559 and \$864,386, respectively.



**Mendocino Coast Health Care District**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

**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 has recorded these funds as unearned grant revenue until eligible expenses or lost revenues are recognized. During the year ended June 30, 2020, the District did not recognize any of the funds as revenue. The District had all of the funds as of June 30, 2020, to use for healthcare-related expenses or lost revenues that are attributable to coronavirus in the next fiscal year.

**11. 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 \$1,000,000 per claim and an annual aggregate of \$3,000,000. 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.

**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 \$367,335 and \$188,429 during the years ended June 30, 2020 and 2019, 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**  
**doing business as Mendocino Coast District Hospital**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2020 and 2019**

**12. Mendocino Coast District Foundation (continued):**

The Foundation’s financial statements are not consolidated with the District’s financial statements as the Foundation’s operations are not material.

**13. 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:

	<b>2020</b>	<b>2019</b>
Medicare	<b>39 %</b>	40 %
Medi-Cal	<b>15</b>	18
Other third-party payors	<b>30</b>	25
Patients	<b>16</b>	17
	<b>100 %</b>	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, 2018, the District renewed its contract with United Food & Commercial Workers Union 8-Golden State (the Union). The contract is effective through June 30, 2020. As of June 30, 2020, and 2019, 70 percent of the District’s employees were represented by the Union.

**14. COVID-19 Pandemic:**

The COVID-19 pandemic has created economic uncertainties which have negatively impacted the District’s financial position. Beginning in March 2020, the District began experiencing significant declines in revenues due to the state of California temporarily suspending all non-emergent surgeries and other non-emergent procedures. In addition, the District has experienced declines in volumes of outpatient and ancillary services, such as radiology, laboratory, emergency department, and clinic visits.

The District received government grants as described in Note 10 above, as part of the federal government’s response to the pandemic.

Medicare sequestration has been suspended from May 1, 2020 through December 31, 2021, which will increase Medicare reimbursement by 2 percent.

In addition to accepting funding from the CARES Act Provider Relief Fund, and other funding sources noted above, the District resumed the services that had been temporarily suspended. However, the pandemic continues to affect the District’s operations. The ultimate COVID-19 pandemic effect on the District’s financial position is unknown at this time.

**Mendocino Coast Health Care District  
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Financial Indicators

June 30, 2020

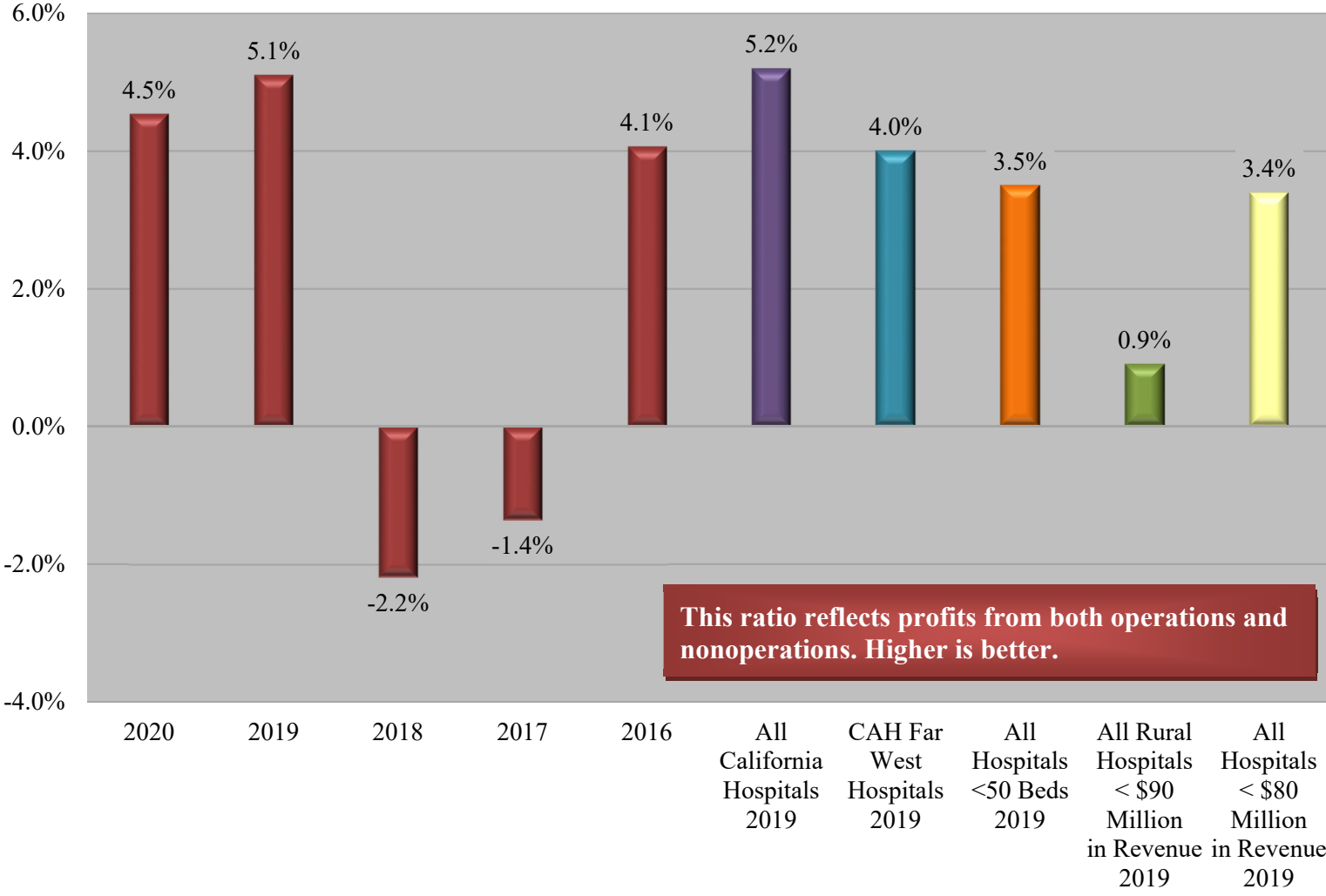


**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

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

# Total Margin

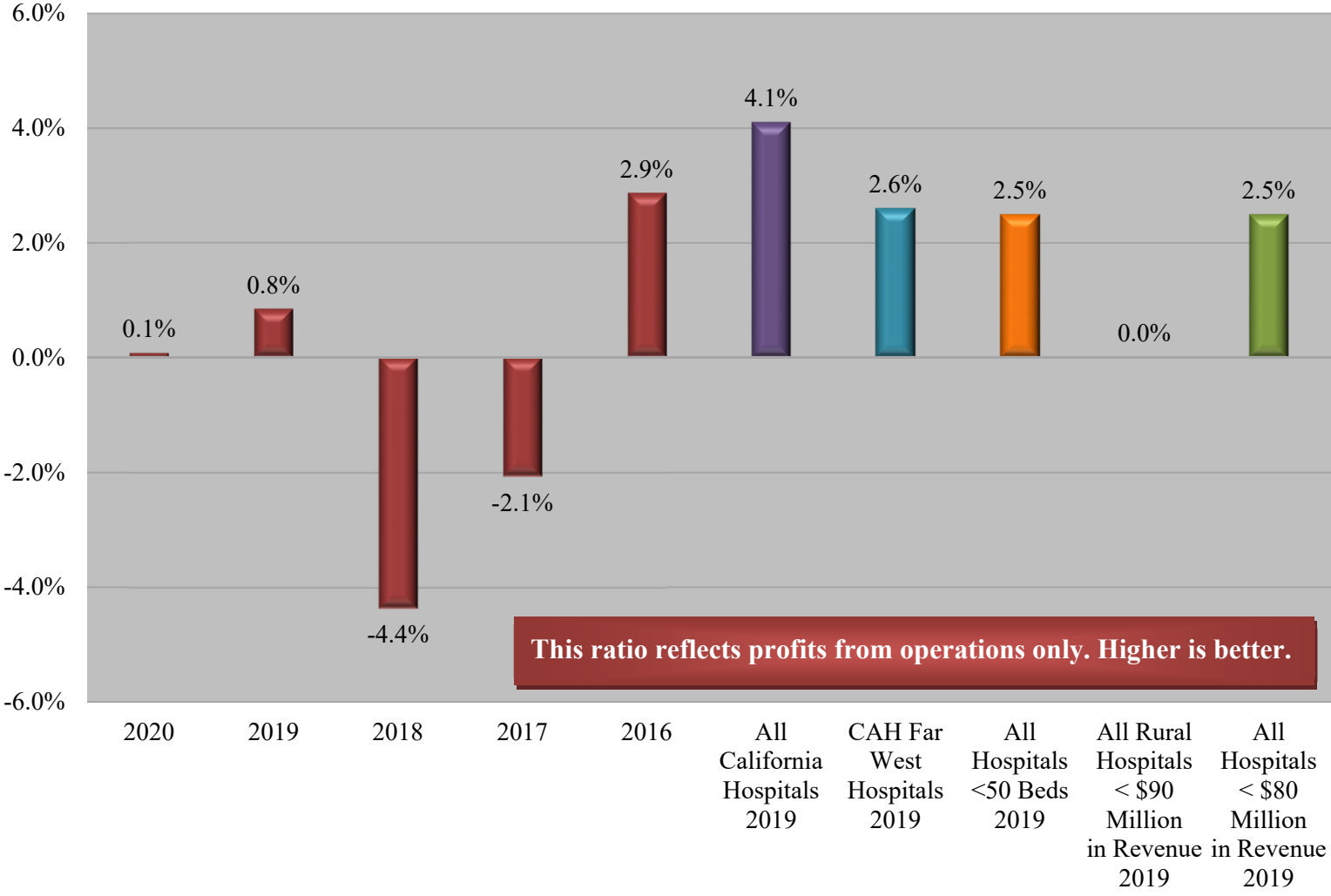
Change in Net Position  
 Total Revenues



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

# Operating Margin

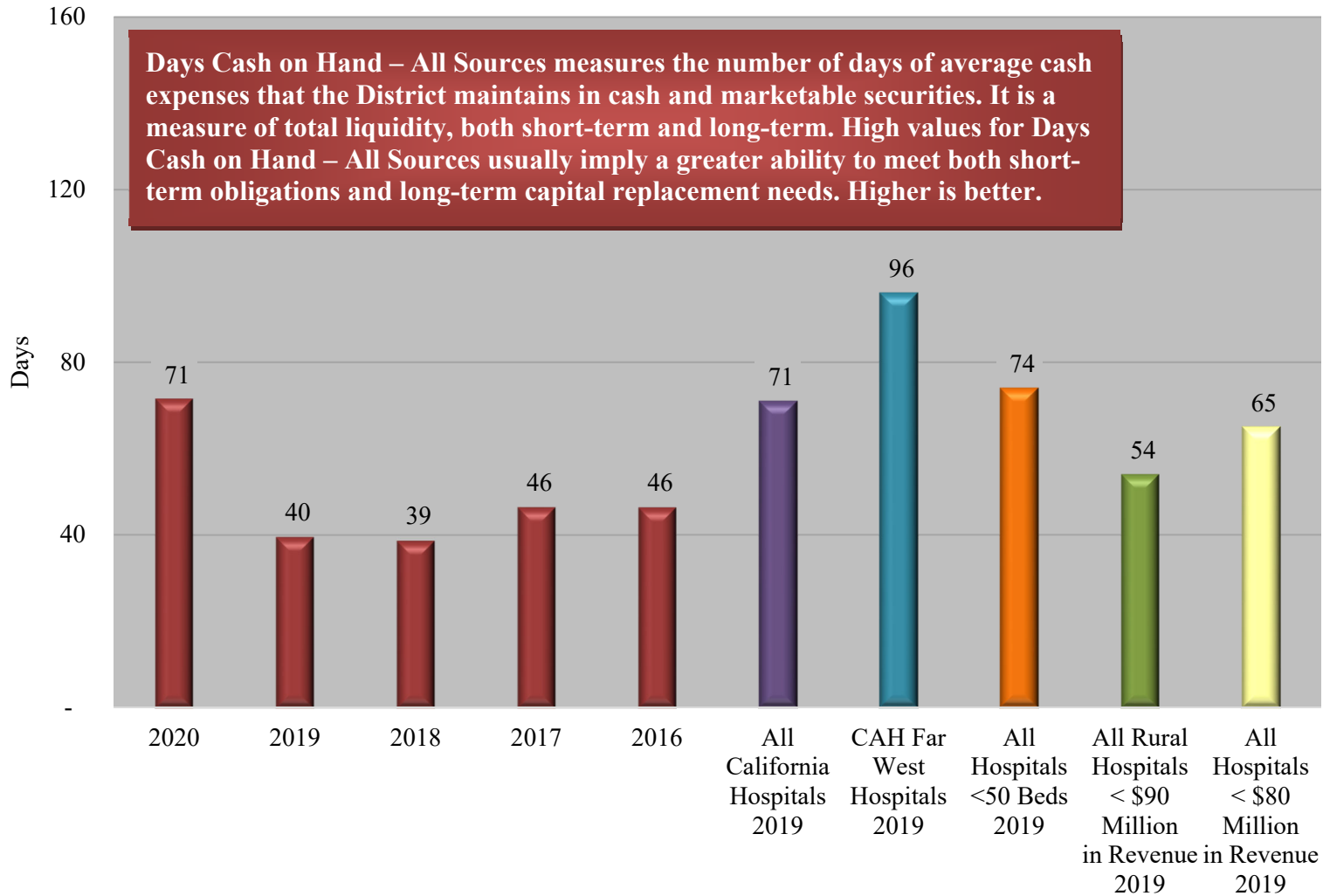
$$\frac{\text{Operating Income (Loss)}}{\text{Total Operating Revenues}}$$



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

# Days Cash on Hand – All Sources

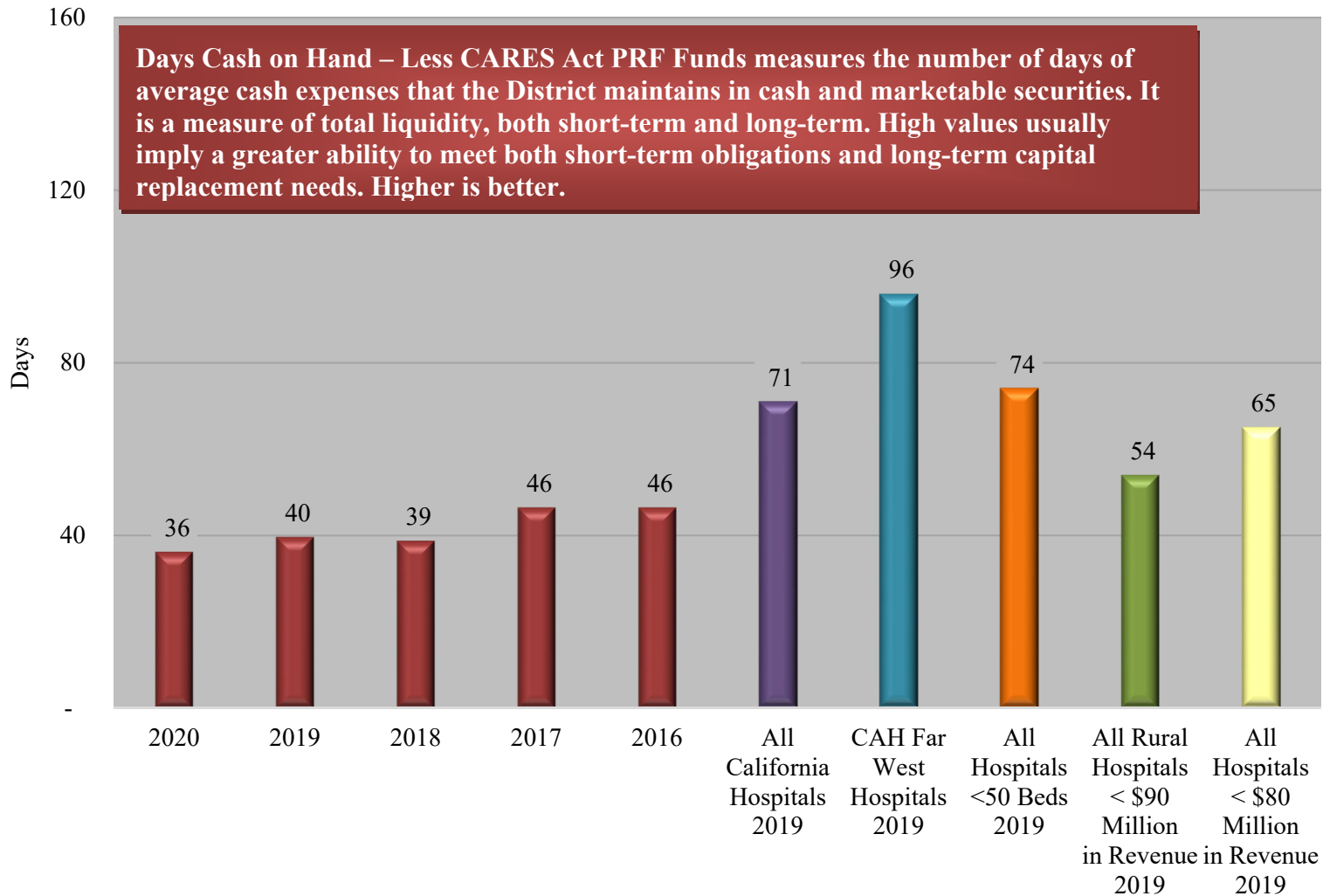
$$\frac{\text{Cash} + \text{Short-term Investments} + \text{Unrestricted Long-term Investments}}{(\text{Total Expenses} - \text{Depreciation}) / 365}$$



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

# Days Cash on Hand – Less CARES Act PRF Funds

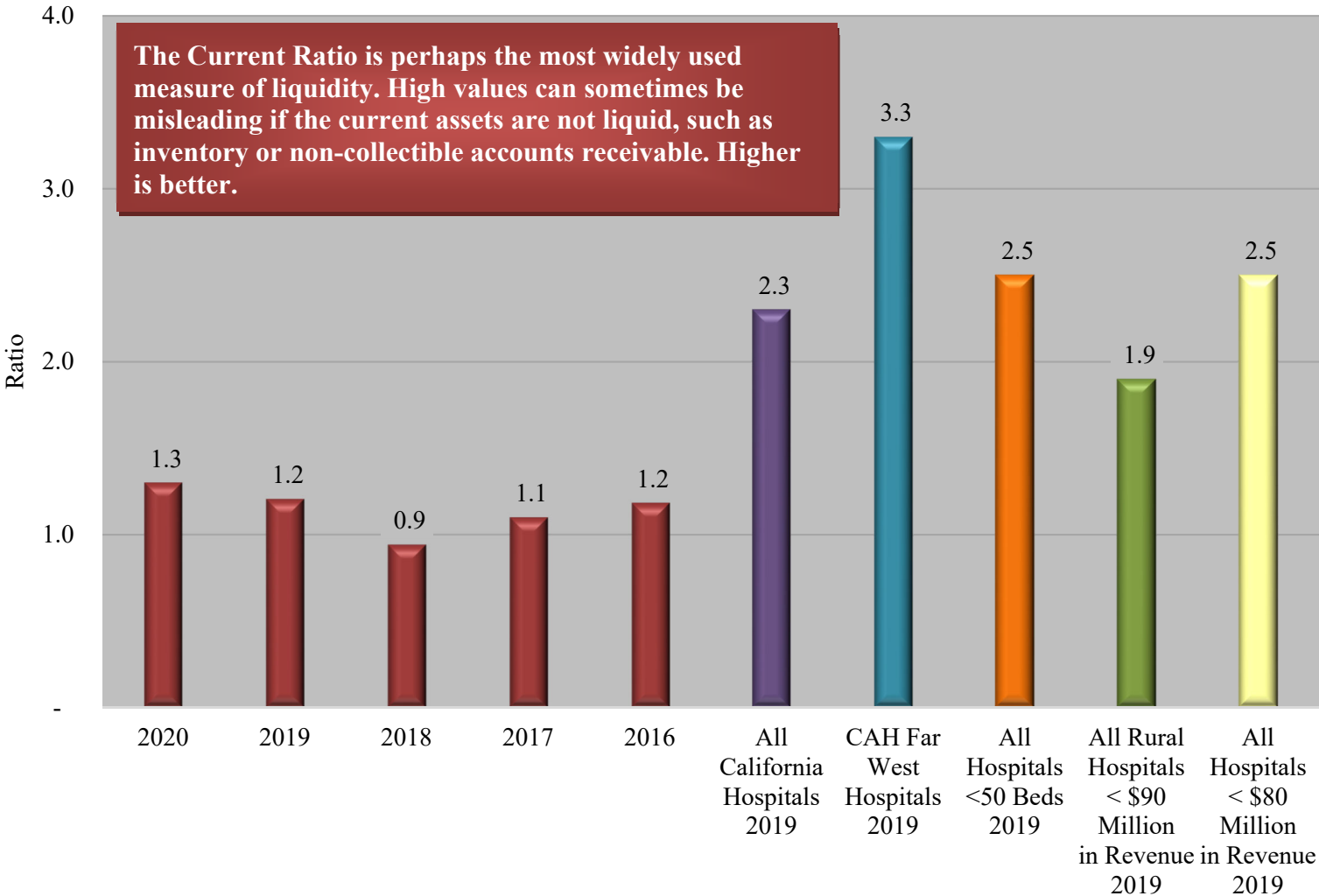
$$\frac{\text{Cash} + \text{Short-term Investments} + \text{Unrestricted Long-term Investments}}{(\text{Total Expenses} - \text{Depreciation}) / 365}$$



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# Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

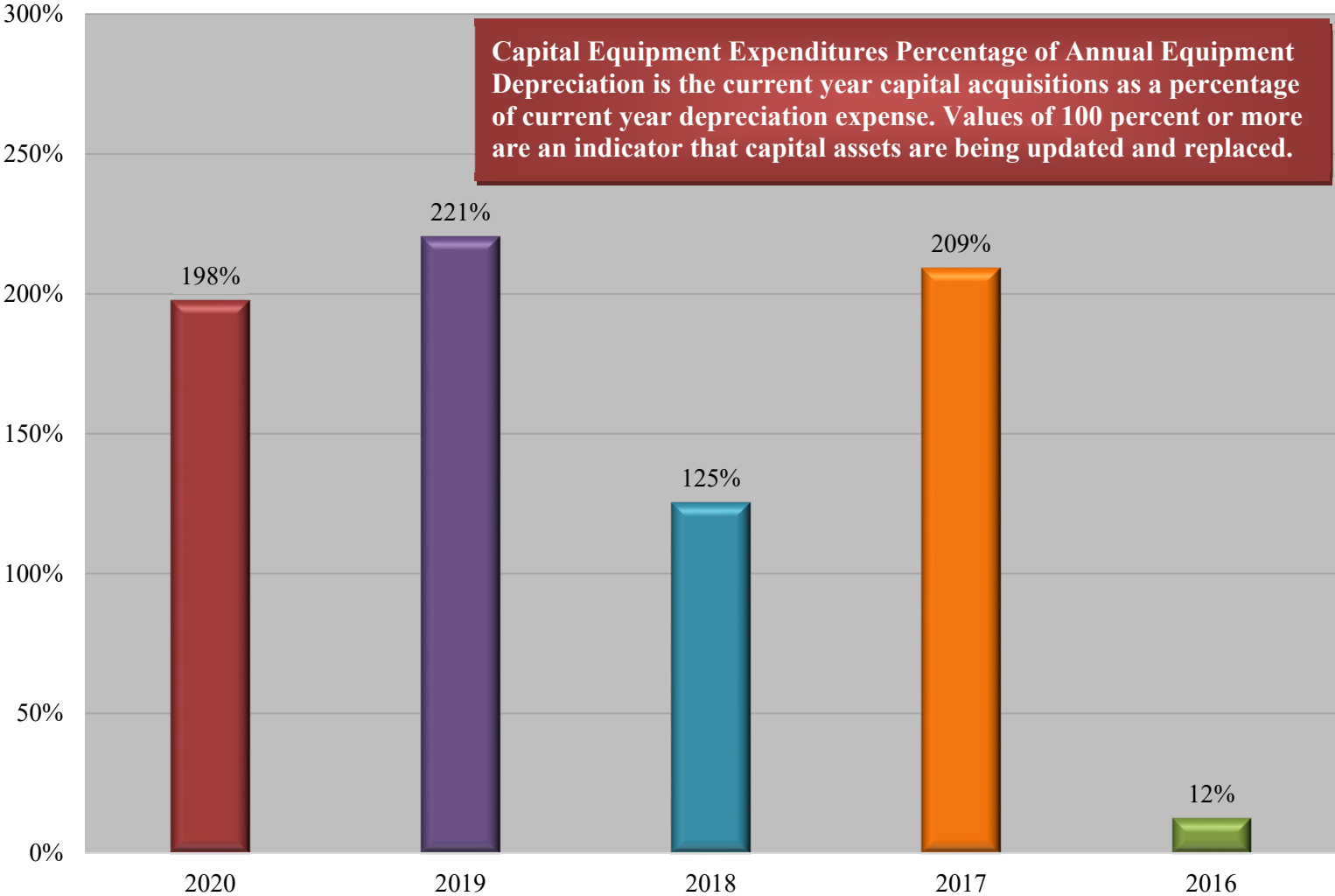




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# Capital Equipment Expenditures Percentage of Annual Equipment Depreciation

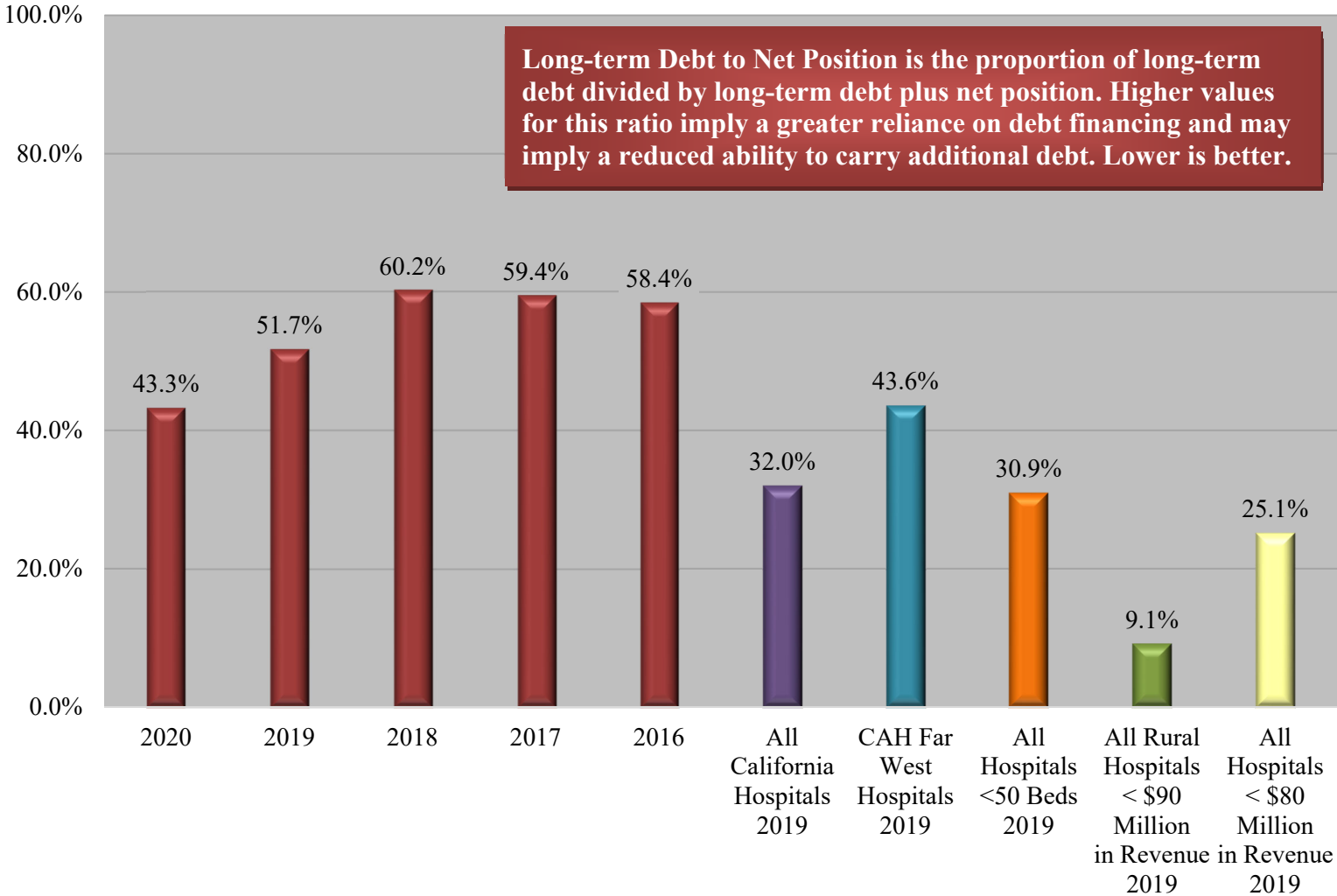
$$\frac{\text{Capital Equipment Expenditures}}{\text{Equipment Depreciation Expense}}$$



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# Long-term Debt to Net Position

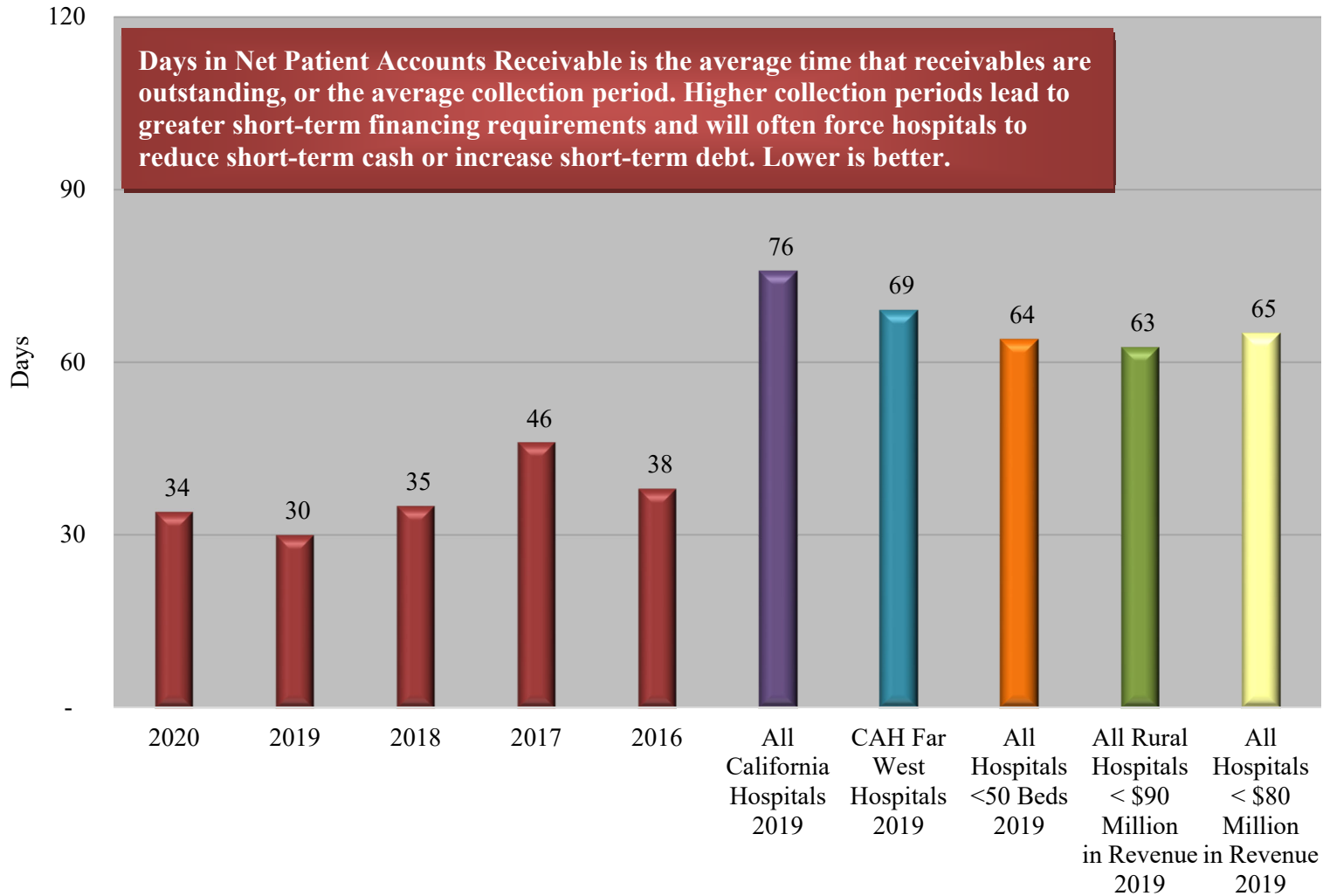
$$\frac{\text{Long-term Debt}}{\text{Long-term Debt} + \text{Net Position}}$$



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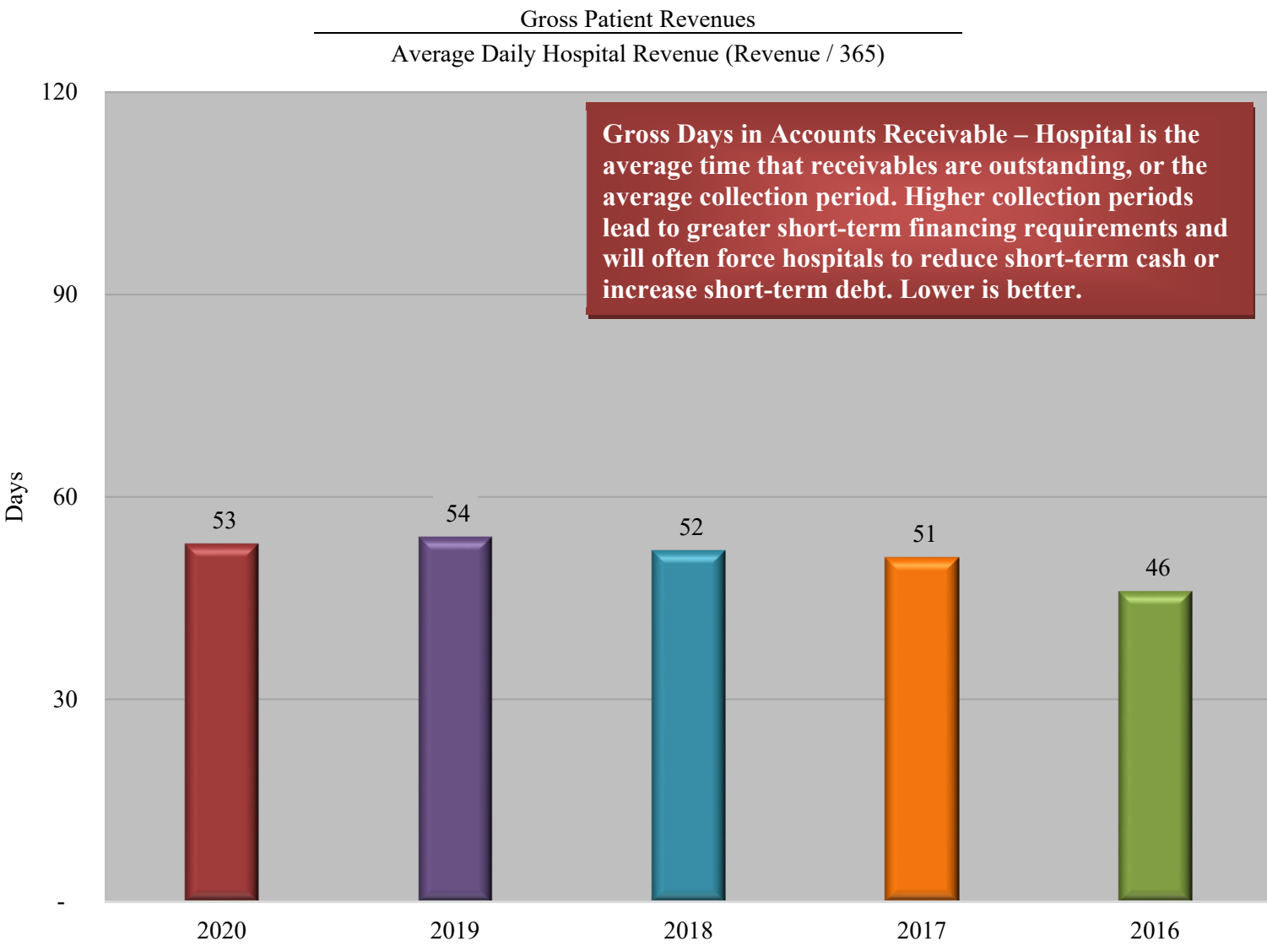
# Days in Net Patient Accounts Receivable

$$\frac{\text{Net Patient Accounts Receivable}}{\text{Net Patient Service Revenue} / 365}$$



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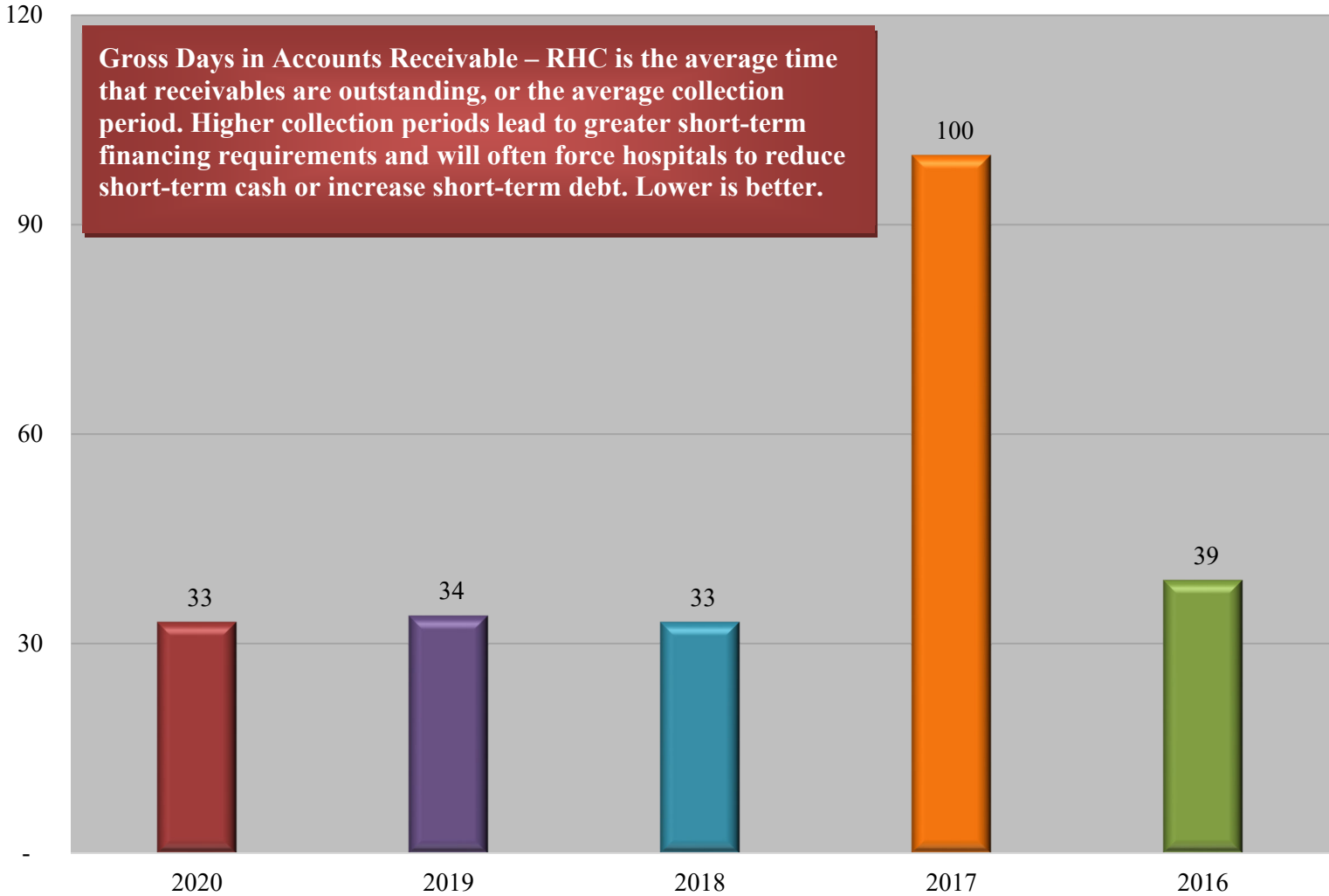
# Gross Days in Accounts Receivable – Hospital



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# Gross Days in Accounts Receivable – RHC

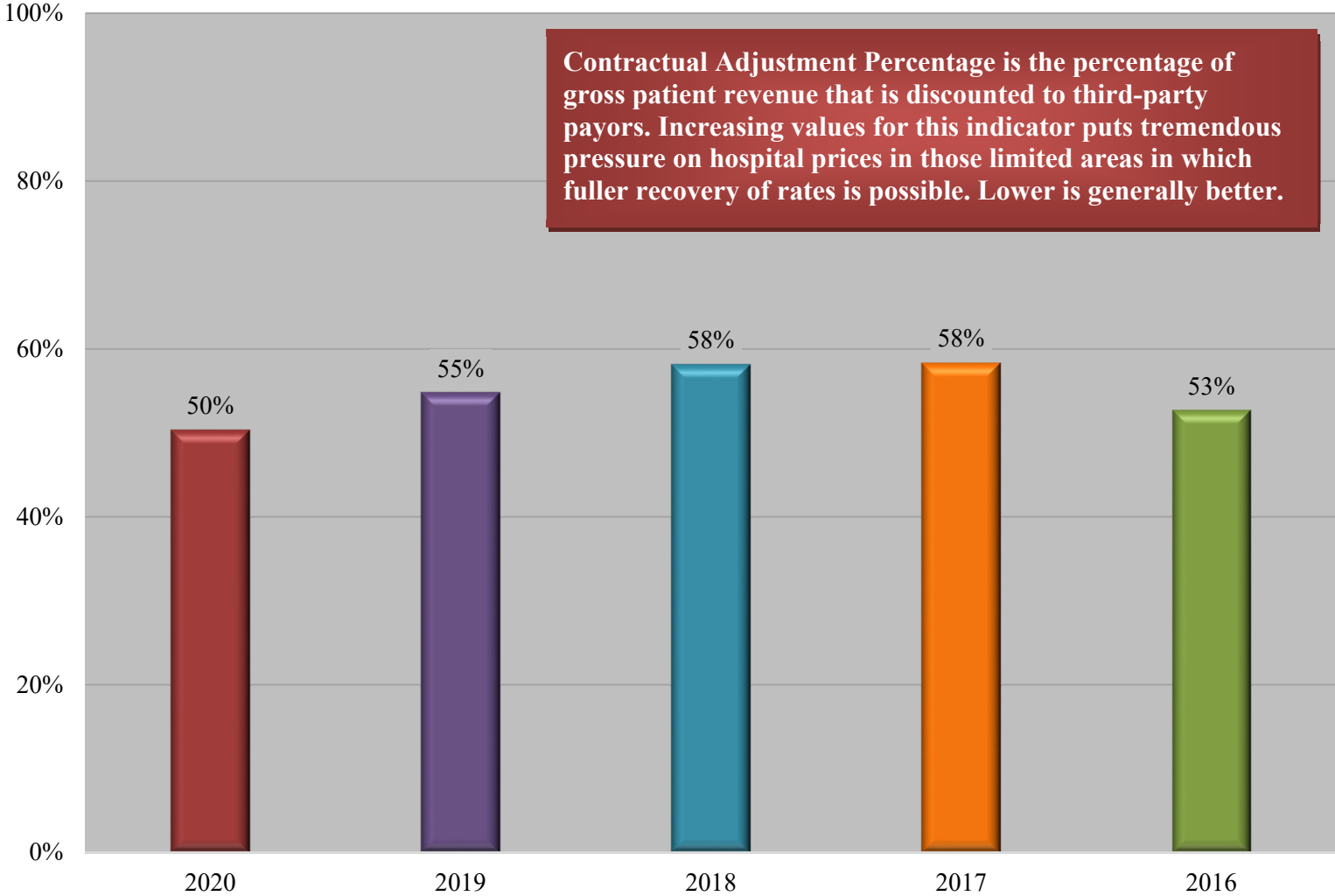
Gross Patient Revenues  
Average Daily Hospital Revenue (Revenue / 365)



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# Contractual Adjustment Percentage

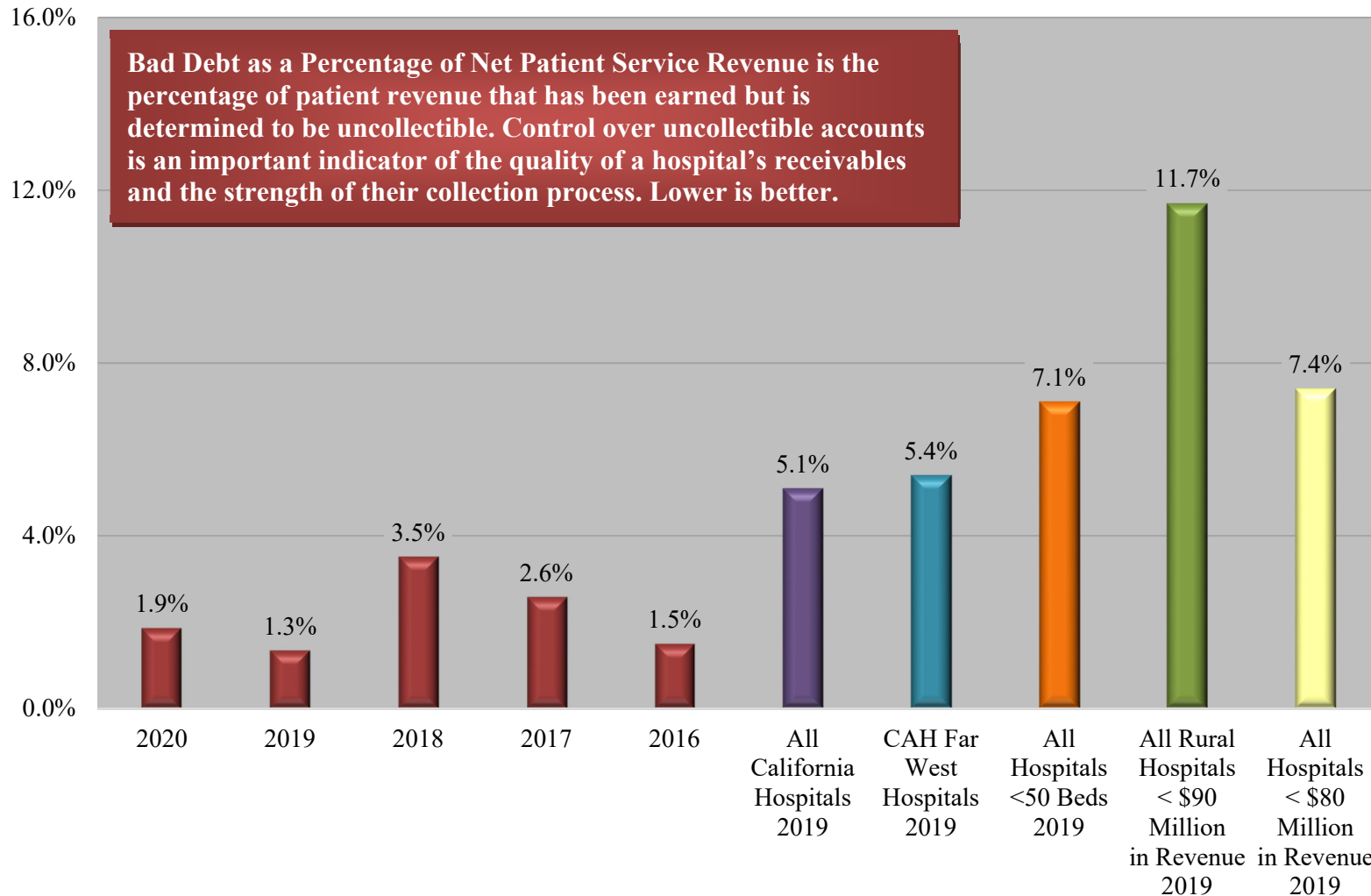
$\frac{\text{Contractual Adjustments}}{\text{Gross Patient Revenues}}$



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# Bad Debt as a Percentage of Net Patient Service Revenue

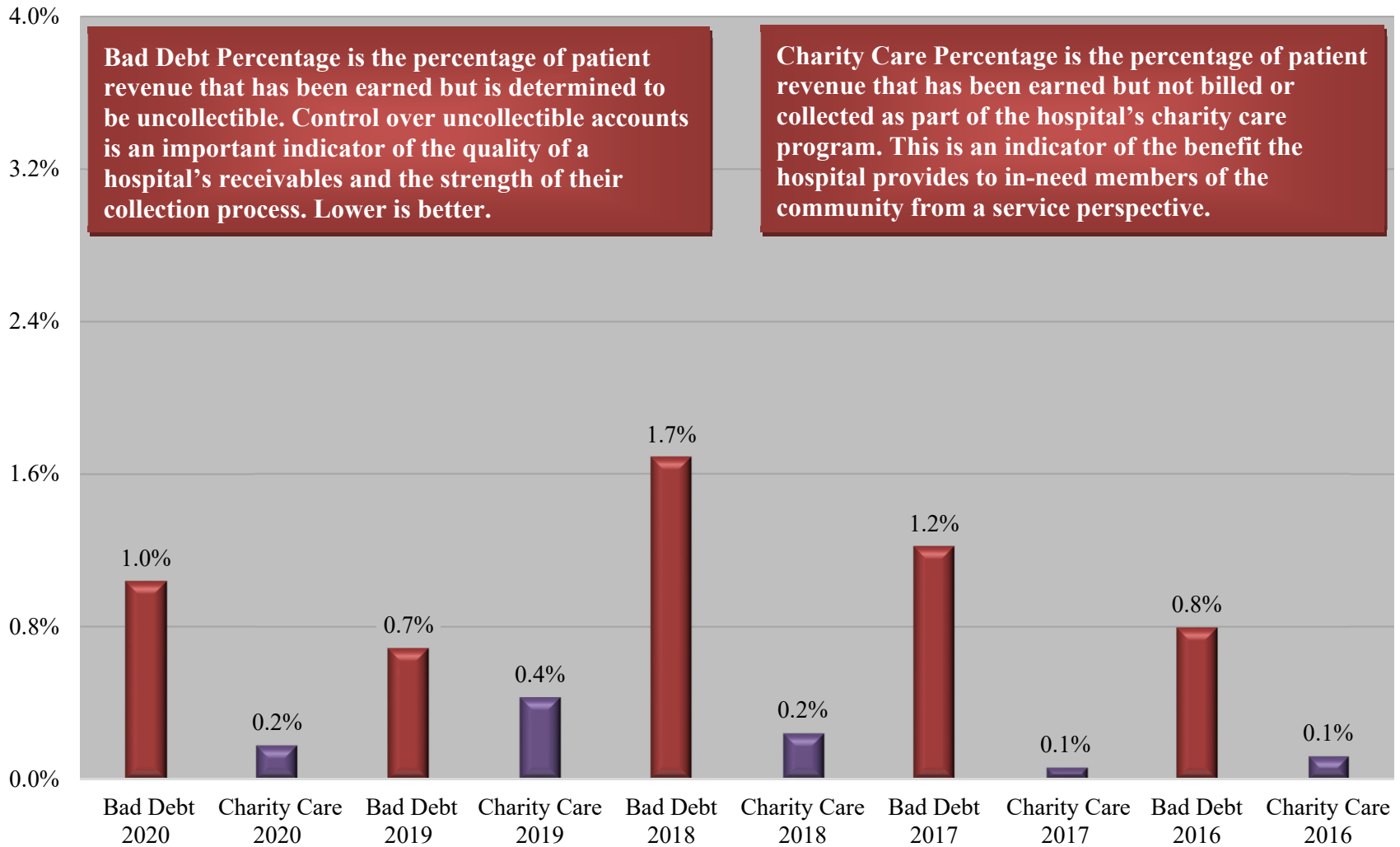
Provision for Bad Debt  
 Net Patient Service Revenues



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# Bad Debt and Charity Care Percentage

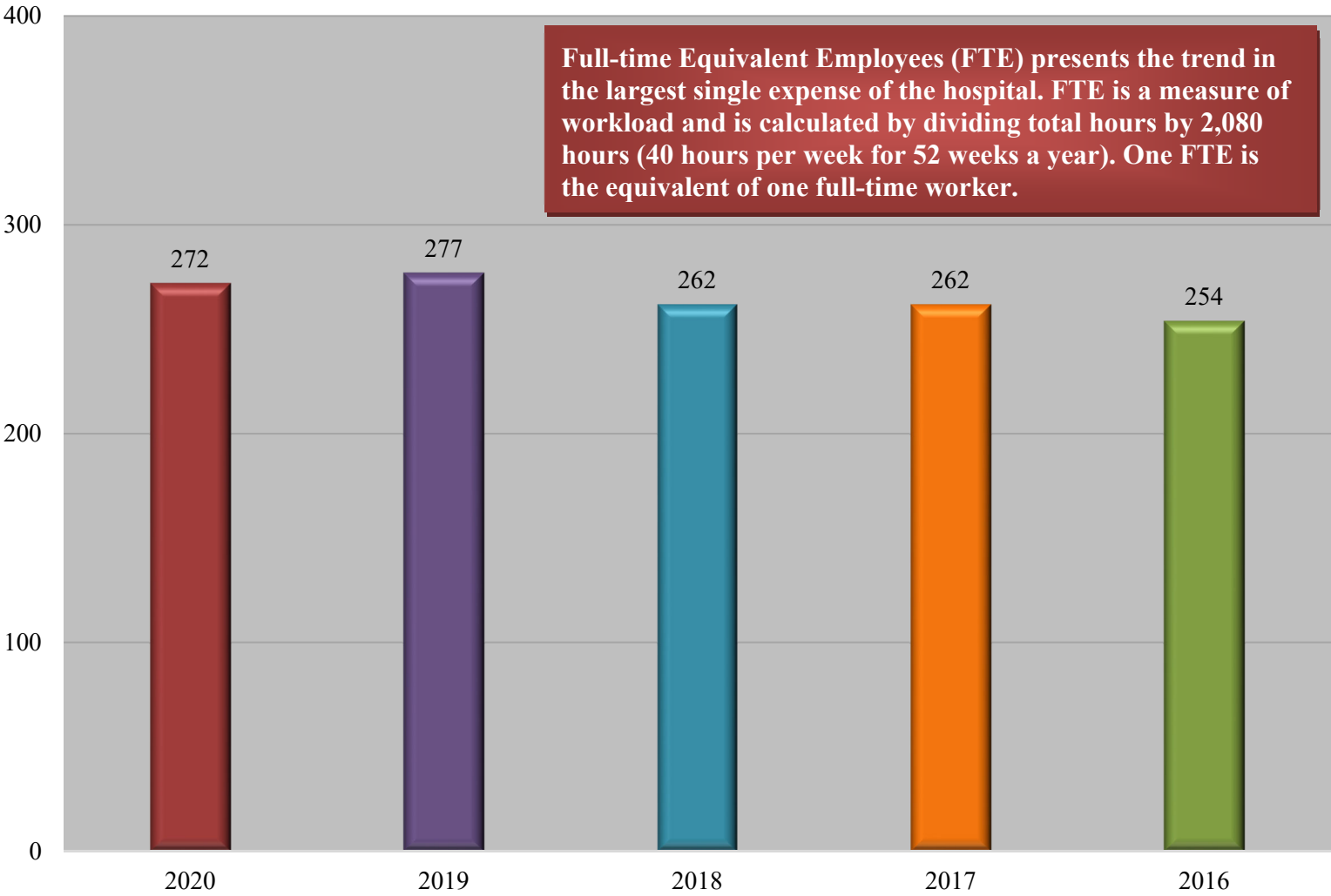
Provision for Bad Debt & Charity Care  
Gross Patient Service Revenues





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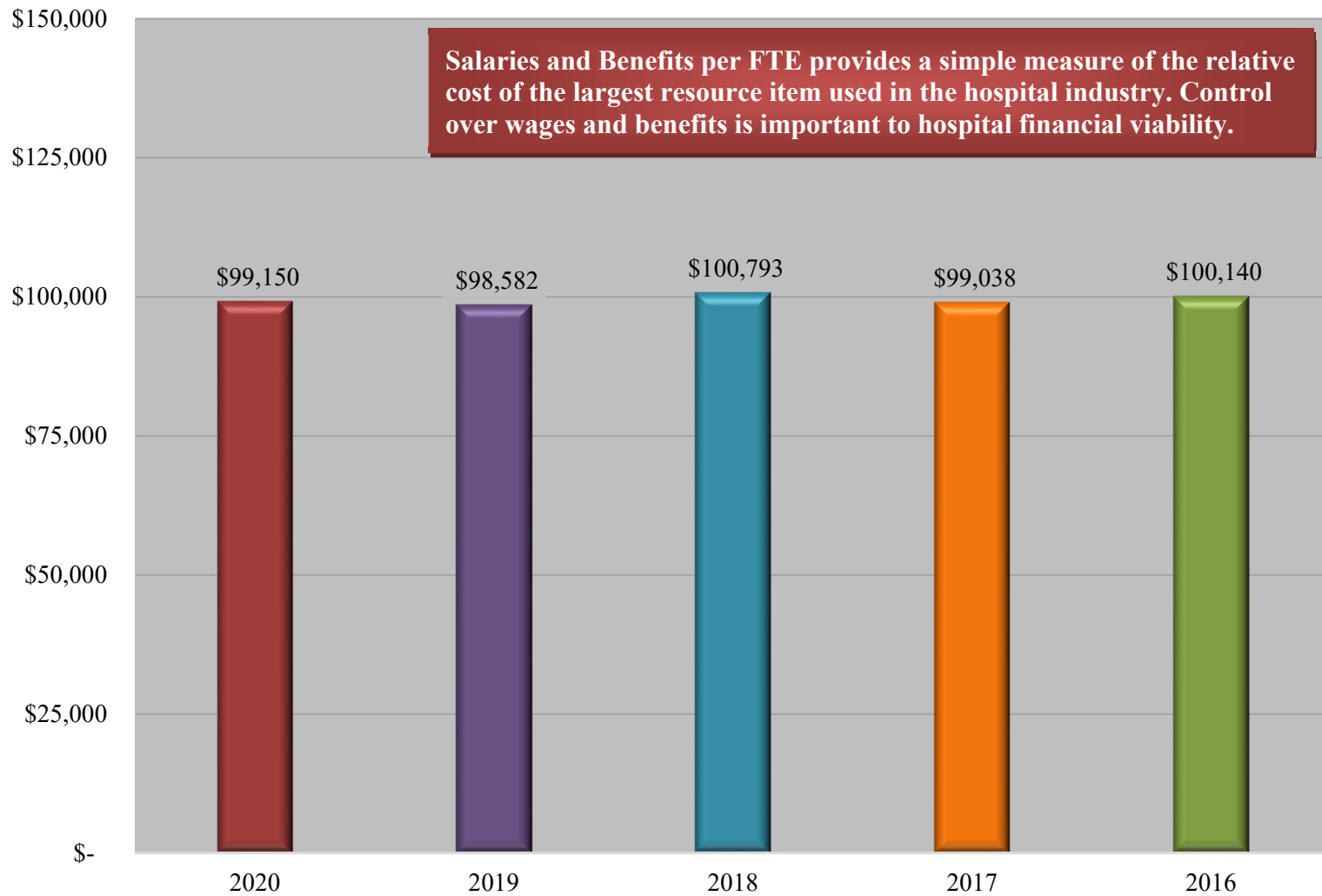
# Full-time Equivalent Employees (FTE)



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# Salaries and Benefits per FTE

$$\frac{\text{Total Salaries + Total Benefits}}{\text{FTEs}}$$



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# Net Patient Service Revenue per FTE

