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

Basic Financial Statements and
Independent Auditors' Report

June 30, 2017 and 2016

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, 2017 and 2016, 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.

12015 East Main Avenue | Spokane Valley, WA 99206 | 509.242.0874 | www.dzacpa.com

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, 2017 and 2016, 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.

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 8 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 3, 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, 2017 and 2016. 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 $724,367 or 7.6%, in 2017 and increased by $3,357,298 or 54.4%, in 2016.
- The District reported an operating loss of $1,091,408 in 2017 or 0.6% of gross patient service revenue, and an operating income in 2016 of $2,115,571 or 3.2% of gross patient service revenue. The operating loss in 2017 was a decrease in operating income of $3,206,979 or 151.6%, from the operating income reported in 2016. The operating income in 2016 was an increase in operating income of $5,476,438 or 162.9% from the operating loss reported in 2015.
- Nonoperating net revenues (expenses) decreased by $519,953 or 158.7%, in 2017 compared to 2016. Nonoperating net revenues (expenses) increased by $21,545 or 7.0%, in 2016 compared to 2015.

Using This Annual Report

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. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Our analysis of the District's finances begins on page 4. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the District's net position and changes in it. You can think of the District's net position — the difference between assets and liabilities — as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as the local economic factors to assess the overall health of the District.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement 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?"

The District's Net Position

The District's net position is the difference between its assets and liabilities reported in the Statement of Net Position on pages 8 and 9. The District's net position decreased by $724,367 or 7.6%, in 2017 and increased by $3,357,298 or 54.4%, in 2016, as shown in Table 1.

Table 1: Assets, Liabilities, and Net Position

	2017	2016	2015
Assets			
Current assets	**$ 14,262,968**	$ 13,762,465	$ 9,620,626
Investments limited as to use in local agency investment fund	**4,226,086**	3,998,601	3,984,172
Cash and cash equivalents restricted or limited as to use, less current portion	**407,350**	976,884	976,515
Capital assets, net	**15,207,782**	15,388,339	17,568,736
Total assets	**34,104,186**	34,126,289	32,150,049
Deferred outflows of resources	**568,750**	-	-
Total assets and deferred outflows of resources	**$ 34,672,936**	$ 34,126,289	$ 32,150,049
Liabilities			
Current liabilities	**$ 12,984,246**	$ 11,248,007	$ 11,184,577
Long-term debt, net of current maturities	**12,885,393**	13,350,618	14,795,106
Total liabilities	**25,869,639**	24,598,625	25,979,683
Net position			
Invested in capital assets, net of related debt	**2,734,858**	2,623,300	3,145,422
Unrestricted	**6,068,439**	6,904,364	3,024,944
Total net position	**8,803,297**	9,527,664	6,170,366
Total liabilities and net position	**$ 34,672,936**	$ 34,126,289	$ 32,150,049

Operating Results and Changes in the District's Net Position

In 2017, the District's net position decreased by $724,367 or 7.6%, as shown in Table 2. This decrease is made up of several different components.

Table 2: Operating Results and Changes in Net Position

	2017	2016	2015
Operating revenues			
Net patient service revenue	**$ 51,866,507**	$ 52,426,560	$ 46,415,770
Other operating revenue	**673,437**	1,295,482	1,115,072
Total operating revenues	**52,539,944**	53,722,042	47,530,842
Operating expenses			
Salaries and benefits	**25,172,213**	24,533,835	23,903,149
Supplies	**9,224,428**	8,222,292	7,750,258
Depreciation	**1,456,629**	2,451,836	2,511,842
Professional fees and registry	**12,153,211**	10,411,069	9,986,296
Other expenses	**5,624,871**	5,987,439	6,740,164
Total operating expenses	**53,631,352**	51,606,471	50,891,709
Operating income (loss)	**(1,091,408)**	2,115,571	(3,360,867)
Nonoperating revenues (expenses)			
Taxation for operations	**805,563**	771,392	720,122
Taxation for debt service	**332,592**	456,891	396,089
Interest expense	**(736,975)**	(888,393)	(812,756)
Bond issuance costs	**(593,450)**	-	-
Gain (loss) on disposal of capital assets	**-**	(12,207)	2,683
Total nonoperating revenues (expenses), net	**(192,270)**	327,683	306,138
Excess of revenues (expenses) before capital contributions	**(1,283,678)**	2,443,254	(3,054,729)
Capital contributions	**559,311**	340,300	298,305
Excess of revenues (expenses) before gain on extinguishment of debt	**(724,367)**	2,783,554	(2,756,424)
Gain on extinguishment of debt	**-**	573,744	947,789
Change in net position	**(724,367)**	3,357,298	(1,808,635)
Net position, beginning of year	**9,527,664**	6,170,366	7,979,001
Net position, end of year	**$ 8,803,297**	$ 9,527,664	$ 6,170,366

Operating Income (Loss)

The first component of the overall change in the District's net position is its operating income (loss) — generally, the difference between net patient revenues and the expenses incurred to perform those services. The District reported an operating loss in 2017 and an operating gain in 2016.

The primary components of these operating results are:

- A decrease in net patient revenue of $560,053 or 1.07%, in 2017. Net patient revenues increased by $6,010,790 or 12.9%, in 2016.
- Increases in salary and benefit costs for the District's employees of $638,378 or 2.6%, in 2017 and an increase of $630,686 or 2.6%, in 2016.
- A decrease in professional fees of $867,121 or 12.53%, in 2017 and an increase of $592,274 or 7.9%, in 2016.
- An increase in registry costs of $2,609,263 or 74.8%, in 2017 and an increase of $1,017,047 or 41.1%, in 2016.
- An increase in purchased services costs of $51,699 or 4.0%, in 2017 and a decrease of $316,633 or 19.8%, in 2016.
- A decrease in depreciation expense of $995,207 or 40.6%, in 2017 and a decrease of $60,006 or 2.4%, in 2016.
- The District's level of uncompensated care provided in 2017 was $68,024 and $119,267 in 2016, or 0.1% and 0.2% of gross revenue, respectively. These are services provided for which no payment is expected.

The District is certified as a provider under both the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medi-Cal program, funded jointly by the federal government and the states, which provide medical assistance to certain needy families. Approximately 57% of the net patient service revenue for the year ended June 30, 2017, was derived from Medicare, and 13% was derived from Medi-Cal. On the Medicare patient side, until 2001, the District was paid on a fixed case rate that was adjusted for inflation each year, and the District would lose money on any cases with expenses exceeding the reimbursement. In 2001 the District was designated a critical access hospital by the Centers for Medicare and Medicaid Services. The District initiated a process to qualify for this designation based on certain criteria that has allowed the District, since that date, to receive reimbursement based on actual costs. As for Medi-Cal, the federal government provides grants to states that have programs meeting certain federal guidelines. These funds are sometimes reduced as the federal or state governments try to balance their budgets.

The rate of healthcare inflation has a direct effect on the cost of services provided by the District. A component of the District's costs is expenses for medical supplies and prescription drugs. In 2017, supplies and prescription drug costs were $9,224,428, consisting of 17% of total operating expenses. In 2016, supplies and prescription drug costs were $8,222,292, consisting of 16% of total operating expenses.

Operating Income (Loss) (continued)

The decrease in operating income is primarily due to several areas that changed between 2016 and 2017. In 2017 Bad Debt increased by $550,117. In 2016 a payment was received from Medicare for the Electronic Health Record incentive in the amount of $594,082, which was a onetime event. There was an increased need for Traveler and Registry staff throughout the organization which increased our total related costs $2,609,263 over 2016. We also realized an increase in overall supply costs by $1,002,136 in 2017 over 2016.

Grants, Contributions, and Endowments

The District, from time to time, receives grants from the state of California and various other agencies for specific programs. These are discussed in detail in Note 1(b) to the financial statements.

The District received no permanent endowments in 2015, 2016, or 2017.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating income and nonoperating revenues and expenses.

Capital Asset and Debt Administration

Capital Assets

At the end of 2017, the District had $15,207,782 invested in capital assets, net of accumulated depreciation, as detailed in Note 7 to the financial statements. In 2017, the District purchased new equipment and finished construction costing $1,276,072. In 2016, the District purchased new equipment and began construction costing $283,646.

Debt

At year end, the District had approximately $14,200,000 in outstanding debt, compared with approximately $14,600,000 in 2016. Debt cannot be issued without approval of the Mendocino Coast District Hospital's Board of Directors. There have been no changes in the District's debt ratings in the past two years.

During the year ended June 30, 2017, the District issued Bonds in the amounts of $5,745,000 and $4,125,000 for the purpose of refinancing its debt obligations. The details of these refinancing transactions are listed in Note 8 to the financial statements.

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 operations and/or facilities to meet the demand of growing healthcare in this area.

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, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017	2016
Current assets		
Cash and cash equivalents	**$ 2,691,381**	$ 2,679,733
Cash and cash equivalents restricted or limited as to use	**524,155**	804,031
Receivables:		
Patient accounts, net of estimated uncollectibles of $1,958,586 and $1,309,418, respectively	**6,603,536**	5,425,781
Estimated third-party payor settlements	**727,380**	815,873
California Department of Health and Human Services	**1,732,027**	1,839,813
Medicare electronic health records incentive	**-**	604,956
Other	**555,975**	114,962
Taxes	**65,424**	60,639
Inventories	**833,535**	800,371
Prepaid expenses	**529,555**	616,306
Total current assets	**14,262,968**	13,762,465
Noncurrent assets		
Investments limited as to use in local agency investment fund	**4,226,086**	3,998,601
Cash and cash equivalents restricted or limited as to use, less current portion	**407,350**	976,884
Capital assets, net	**15,207,782**	15,388,339
Total noncurrent assets	**19,841,218**	20,363,824
Deferred outflows of resources		
Bond refunding	**568,750**	**-**
Total assets and deferred outflows of resources	**$ 34,672,936**	$ 34,126,289

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, 2017 and 2016

LIABILITIES AND NET POSITION	2017	2016
Current liabilities		
Accounts payable	**$ 4,472,609**	$ 3,569,419
Accrued compensation and related liabilities	**2,890,935**	3,031,950
Estimated third-party payor settlements	**3,107,493**	2,024,936
Accrued interest	**1,193,974**	1,327,592
Current maturities of long-term debt	**1,319,235**	1,294,110
Total current liabilities	**12,984,246**	11,248,007
Noncurrent liabilities		
Long-term debt, less current maturities	**12,885,393**	13,350,618
Total liabilities	**25,869,639**	24,598,625
Net position		
Net investment in capital assets	**2,734,858**	2,623,300
Unrestricted	**6,068,439**	6,904,364
Total net position	**8,803,297**	9,527,664
Total liabilities and net position	**$ 34,672,936**	$ 34,126,289

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, 2017 and 2016

	2017	2016
Operating revenues		
Net patient service revenue, net of provision for bad debts of $1,333,832 and $783,715, respectively	**$ 51,866,507**	$ 52,426,560
Medicare electronic health records incentive	**-**	594,082
Other revenue	**673,437**	701,400
Total operating revenues	**52,539,944**	53,722,042
Operating expenses		
Salaries and wages	**18,570,332**	17,385,021
Employee benefits	**6,601,881**	7,148,814
Professional fees	**6,053,567**	6,920,688
Registry	**6,099,644**	3,490,381
Purchased services	**1,332,363**	1,280,664
Supplies	**9,224,428**	8,222,292
Depreciation	**1,456,629**	2,451,836
Repairs and maintenance	**911,450**	1,134,240
Utilities	**796,126**	895,689
Leases and rentals	**541,807**	594,937
Insurance	**505,474**	486,516
Other	**1,537,651**	1,595,393
Total operating expenses	**53,631,352**	51,606,471
Operating income (loss)	**(1,091,408)**	2,115,571
Nonoperating revenues (expenses)		
Taxation for operations	**805,563**	771,392
Taxation for debt service	**332,592**	456,891
Interest expense	**(736,975)**	(888,393)
Bond issuance costs	**(593,450)**	-
Loss on disposal of capital assets	**-**	(12,207)
Total nonoperating revenues (expenses), net	**(192,270)**	327,683
Excess of revenues (expenses) before capital contributions	**(1,283,678)**	2,443,254
Capital contributions	**559,311**	340,300
Excess of revenues (expenses) before gain on extinguishment of debt	**(724,367)**	2,783,554
Gain on extinguishment of debt	**-**	573,744
Change in net position	**(724,367)**	3,357,298
Net position, beginning of year	**9,527,664**	6,170,366
Net position, end of year	**$ 8,803,297**	$ 9,527,664

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, 2017 and 2016

	2017	2016
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Receipts from and on behalf of patients	**$ 51,967,588**	$ 50,313,968
Other receipts	**232,424**	710,007
Medicare electronic health records incentive	**604,956**	-
Payments to and on behalf of employees	**(25,313,228)**	(24,411,878)
Payments to suppliers and contractors	**(26,045,733)**	(24,100,948)
Net cash provided by operating activities	**1,446,007**	2,511,149
Cash flows from noncapital financing activities		
District tax receipts for maintenance and operations	**800,778**	768,870
Principal payments on long-term debt	**(280,820)**	(277,372)
Interest paid	**(58,170)**	(69,292)
Contributions	**-**	340,300
Net cash provided by noncapital financing activities	**461,788**	762,506
Cash flows from capital and related financing activities		
District tax receipts for bond principal and interest	**332,592**	456,891
Capital contributions	**559,311**	-
Principal payments on long-term debt	**(722,102)**	(1,320,874)
Bond issuance costs	**(593,450)**	-
Interest paid	**(818,351)**	(834,916)
Purchase of capital assets	**(1,276,072)**	(283,646)
Net cash used in capital and related financing activities	**(2,518,072)**	(1,982,545)
Cash flows from investing activities		
Purchase of investments in local agency investment fund	**(227,485)**	(14,429)
Net cash used in investing activities	**(227,485)**	(14,429)
Net increase (decrease) in cash and cash equivalents	**(837,762)**	1,276,681
Cash and cash equivalents, beginning of year	**4,460,648**	3,183,967
Cash and cash equivalents, end of year	**$ 3,622,886**	$ 4,460,648

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, 2017 and 2016

		2017		2016
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position				
Cash and cash equivalents	**$**	**2,691,381**	$	2,679,733
Cash and cash equivalents restricted or limited as to use, current		**524,155**		804,031
Cash and cash equivalents restricted or limited as to use, long-term		**407,350**		976,884
Total cash and cash equivalents	**$**	**3,622,886**	$	4,460,648
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	**$**	**(1,091,408)**	$	2,115,571
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation		**1,456,629**		2,451,836
Provision for bad debts		**1,333,832**		783,715
Decrease (increase) in assets:				
Receivables:				
Patient accounts		**(2,511,587)**		(2,694,015)
Estimated third-party payor settlements		**88,493**		129,668
California Department of Health and Human Services		**107,786**		(569,781)
Medicare electronic health records incentive		**604,956**		(594,082)
Other		**(441,013)**		8,607
Inventories		**(33,164)**		(17,264)
Prepaid expenses		**86,751**		90,147
Increase (decrease) in liabilities:				
Accounts payable		**903,190**		446,969
Accrued compensation and related liabilities		**(141,015)**		121,957
Estimated third-party payor settlements		**1,082,557**		237,821
Net cash provided by operating activities	**$**	**1,446,007**	$	2,511,149

Noncash Financing Activities

During the year ended June 30, 2017, the District refunded its 1996, 2009, and 2010 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.

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 is 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.

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.

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, 2017 and 2016, the District has an accrued compensated absence liability of $1,294,330 and $1,452,903, 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, 2017 and 2016. *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 2016 financial statements in order to be consistent with the 2017 financial statements. These reclassifications had no effect on the previously reported change in net position.

Subsequent Events – The District's management evaluated the effect of subsequent events on the financial statements through November 3, 2017, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

2. Bank Deposits and Investments:

As of June 30, 2017 and 2016, 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 account 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% 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% 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:

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

	2016			
		Investment Maturities in Years		Investment
	Fair Value	Less than 1	1 to 5	Over 5	Ratings
Investment in Local Agency Investment Funds	$ 3,998,601	$ 3,998,601	$ -	$ -	Not applicable
Total investments	$ 3,998,601	$ 3,998,601	$ -	$ -	

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, 2017 or 2016.

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% 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.

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, 2017 and 2016, 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:

		2017		2016
Board designated for investment in Local Agency Investment Fund	**$**	**4,226,086**	$	3,998,601
Board designated for repayment of long-term debt		**524,155**		804,031
Bond restricted for payment of long-term debt		**407,350**		976,884
Total assets limited as to use	**$**	**5,157,591**	$	5,779,516

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 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:

		2017		**2016**
Receivable from patients and their insurance carriers	**$**	**5,302,121**	$	3,325,020
Receivable from Medicare		**1,821,394**		2,348,370
Receivable from Medi-Cal		**1,438,607**		1,061,809
Total patient accounts receivable		**8,562,122**		6,735,199
Less allowance for uncollectible accounts		**(1,958,586)**		(1,309,418)
Patient accounts receivable, net	**$**	**6,603,536**	$	5,425,781

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.

6. Medicare Electronic Health Records Incentive:

The District recognized Medicare electronic health records (EHR) incentive revenue during the year ended June 30, 2016. The EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The District recognizes the Medicare incentive payment on the date that the District has successfully complied with meaningful use criteria during the entire EHR reporting period. The District obtained hardship exemptions from complying with meaningful use criteria in 2017 and 2016. The District's Medicare EHR reporting period is through December 31 of each year.

The Medicare incentive payment recognized is an estimate and subject to audit by Centers for Medicare and Medicaid Services (CMS). The Medicare EHR incentive payment is based on the patient days reported in the prior cost report and the undepreciated cost of the EHR equipment submitted to CMS. Medicare incentive payments of approximately $600,000 related to meaningful use equipment claimed on the 2013 Medicare cost report were recorded as revenue in 2016. No Medicare incentive payments were recorded as revenue in 2017.

7. 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:

	Years
Buildings and improvements	5-40
Equipment	3-20

Capital asset activity follows:

	Balance June 30, 2016	Additions	Retirements	Transfers	Balance June 30, 2017
Capital assets not being depreciated					
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**
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**
Less accumulated depreciation for					
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**

7. Capital Assets (continued):

	Balance June, 30 2015	Additions	Retirements	Transfers	Balance June 30, 2016
Capital assets not being depreciated					
Land	$ 117,490	$ -	$ -	$ -	**$ 117,490**
Construction in progress	238,379	85,293	-	(64,155)	**259,517**
Total capital assets not being depreciated	355,869	85,293	-	(64,155)	**377,007**
Capital assets being depreciated					
Building and improvements	25,215,842	-	-	-	**25,215,842**
Equipment	22,345,822	198,353	(1,191,346)	64,155	**21,416,984**
Total capital assets being depreciated	47,561,664	198,353	(1,191,346)	64,155	**46,632,826**
Less accumulated depreciation for					
Building and improvements	(12,476,283)	(849,517)	-	-	**(13,325,800)**
Equipment	(17,872,514)	(1,602,319)	1,179,139	-	**(18,295,694)**
Total accumulated depreciation	(30,348,797)	(2,451,836)	1,179,139	-	**(31,621,494)**
Total capital assets being depreciated, net	17,212,867	(2,253,483)	(12,207)	64,155	**15,011,332**
Capital assets, net of accumulated depreciation	$ 17,568,736	$ (2,168,190)	$ (12,207)	$ -	**$ 15,388,339**

Construction in Progress – As of June 30, 2017, construction in progress (CIP) consisted of the cost of installation of a telemetry system, with estimated costs to complete of $150,000, projected to be completed by December 31, 2017. The cost of an Auto Transfer Switch, with estimated costs to complete of $500,000, projected to be completed by December 31, 2018, and the cost of a ventilation system, with estimated costs to complete of $950,000, projected to be completed by December 31, 2018.

8. Long-term Debt and Capital Lease Obligations:

A schedule of changes in the District's long-term debt and capital lease obligations follows:

Bonds and Notes Payable	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

Bonds and Notes Payable	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Amounts Due Within One Year
LTGO bonds series 2000	**$ 3,940,000**	**$ -**	**$ -**	**$ 3,940,000**	**$ -**
LTGO bonds series 2000 - capital appreciation	**661,474**	**-**	**(75,971)**	**585,503**	**77,762**
1996 revenue bonds	**1,330,000**	**-**	**(235,000)**	**1,095,000**	**250,000**
2009 revenue bonds	**4,045,000**	**-**	**(210,000)**	**3,835,000**	**220,000**
2010 revenue bonds	**2,260,000**	**-**	**(120,000)**	**2,140,000**	**125,000**
United Healthcare note	**1,890,000**	**-**	**(210,000)**	**1,680,000**	**210,000**
CMS note	**193,675**	**-**	**(67,372)**	**126,303**	**76,564**
OSHPD CAL Mortgage	**1,005,805**	**-**	**(25,000)**	**980,805**	**100,000**
Bankruptcy payables	**604,248**	**-**	**(180,154)**	**424,094**	**234,784**
Premiums and discounts	**(188,599)**	**-**	**26,622**	**(161,977)**	**-**
Total bonds and notes payable	**15,741,603**	**-**	**(1,096,875)**	**14,644,728**	**1,294,110**
Capital Lease Obligations					
Toshiba Medical	**469,891**	**-**	**(469,891)**	**-**	**-**
Bausch & Lomb - Surgery System	**9,766**	**-**	**(9,766)**	**-**	**-**
Bausch & Lomb	**21,714**	**-**	**(21,714)**	**-**	**-**
Total capital lease obligations	**501,371**	**-**	**(501,371)**	**-**	**-**
Total long-term debt and capital lease obligations	**$ 16,242,974**	**$ -**	**$ (1,598,246)**	**$ 14,644,728**	**$ 1,294,110**

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

Years Ending	**Long-term Debt**		
June 30,	**Principal**	**Interest**	**Total**
2018	$ 1,319,235	$ 416,014	$ 1,735,249
2019	1,328,969	407,539	1,736,508
2020	1,163,463	389,681	1,553,144
2021	941,356	395,221	1,336,577
2022	902,675	393,807	1,296,482
2023 - 2027	4,372,425	990,910	5,363,335
2028 - 2031	3,345,000	179,501	3,524,501
	$ 13,373,123	**$ 3,172,673**	**$ 16,545,796**

8. 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 $470,000 unfunded portion of the bond principal is payable through 2019 at various amounts from $230,000 to $240,000. Bond interest is payable semiannually at various rates ranging from 4.5% to 5.3%.

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 $305,000 to $625,000. Bond interest is payable semiannually at various rates from 3.0% to 5.0%. 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). The District is required to maintain certain financial ratios and to make monthly deposits to a trustee for bond sinking fund payments and insurance payments becoming due and payable within the next 12 months, and for interest payments becoming due and payable within the next six months.

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.

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% to 5.000% and principal maturities ranging from $35,000 in 2022 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%. 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.

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

2000 General Obligation Refunding Bonds, Series 2016 (continued) – 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, 2017, 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% and principal payments of $210,000 are due annually in April through 2024.

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 $11,726 to $27,752 are due monthly through March 2022.

CMS Payable – The District has a note payable to CMS related to a settlement for a self-reported Stark Law violation. The settlement was for $210,000, and carries interest at 5.0%, with a payment, including interest, of $56,645 due in 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, with payments of $234,784 and $189,310 due in 2018 and 2019, respectively.

9. 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 provisions for bad debts and writeoffs increased from the prior year due to an increase in third-party payor plans with high deductible and co-insurance amounts that the patient is responsible to pay. The District has not changed its charity care or uninsured discount policies during 2017. 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:

		2017		2016
Patient service revenue (net of contractual adjustments and discounts):				
Medicare	**$**	**29,615,447**	$	31,135,745
Medi-Cal		**6,836,547**		6,574,188
Other third-party payors		**13,324,526**		13,221,130
Patients		**1,304,491**		1,085,240
Supplemental payments		**2,187,352**		1,313,239
		53,268,363		53,329,542
Less:				
Charity care		**68,024**		119,267
Provision for bad debts		**1,333,832**		783,715
Net patient service revenue	**$**	**51,866,507**	$	52,426,560

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.

9. 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 decreased by approximately $76,000 and increased by approximately $1,500,000 in 2017 and 2016, respectively, due to differences between original estimates and final settlements or revised estimates.

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, 2017 and 2016, were approximately $32,000 and $60,000, respectively. The District did not receive any gifts or grants to subsidize charity services during 2017 and 2016.

10. 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, 2017 and 2016, were $811,495 and $993,697, respectively. For the years ended June 30, 2017 and 2016, the amounts owed to the Plan by the District were $832,353 and $1,001,041, respectively. For the years ended June 30, 2017 and 2016, actual annual contributions by the District to the Plan were $832,353 and $1,009,396, 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, 2017 and 2016, were $748,761 and $468,596, respectively.

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 $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.

11. Risk Management and Contingencies (continued):

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 $559,045 and $259,020 during the years ended June 30, 2017 and 2016, 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.

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:

	2017	2016
Medicare	**33 %**	42 %
Medicaid	**22**	18
Other third-party payors	**31**	28
Patients	**14**	12
	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, 2017 and 2016, 78 percent and 81 percent, respectively, of the Districts' employees were represented by the Union.

14. Chapter 9 Bankruptcy:

During the year ended June 30, 2013, the District filed for Bankruptcy under Chapter 9 of Title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court – Northern District of California. The District is represented by legal counsel in this reorganization under Chapter 9. The purpose of the District's plan of reorganization was to restructure certain classifications of the District's debt and provide for their payment in whole or in part. The District's bankruptcy filing and related reorganization plan was approved by the courts in early 2015. Certain debt was restructured, reduced, discharged, or rendered unenforceable. The ultimate success of this plan will depend primarily on the ability of the District's management to operate at a level of increased cash flows, coupled with District property taxes, to meet their obligations in the normal course of operations going forward. District management is continuing a program of cost reductions and revenue enhancement which it believes will result in improved cash flows.

During the year ended June 30, 2016, the District received forgiveness of debt related to settlement and approval of its bankruptcy filing and reported a net gain of $573,744.