

Report of Independent Auditors
and Financial Statements

EASTERN PLUMAS HEALTH CARE DISTRICT

June 30, 2018 & 2017

JWT & Associates, LLP
Advisory Assurance Tax

EASTERN PLUMAS HEALTH CARE DISTRICT

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Report of Independent Auditors

The Board of Directors
Eastern Plumas Health Care District
Portola, California

Report on the Financial Statements

We have audited the accompanying financial statements of Eastern Plumas Health Care District (the District) as of June 30, 2018 and 2017, which comprise the statement of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and in accordance with the State Controller's Minimum Audit Requirements for Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 auditor considers 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 Eastern Plumas Health Care District at June 30, 2018 and 2017, and the results of its operations and its cash flows for the year then ended, in conformity 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 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing 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.

JWT & Associates, LLP

Fresno, California
December 6, 2018

EASTERN PLUMAS HEALTH CARE DISTRICT

Management's Discussion and Analysis

June 30, 2018 and 2017

The management of Eastern Plumas Health Care District (the District) has prepared this annual discussion and analysis in order to provide an overview of the District's financial performance for fiscal year ended June 30, 2018, in accordance with the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments. The intent of this discussion and analysis is to provide additional information on the District's historical financial performance as a whole in addition to providing a prospective look at revenue growth, operating expenses, capital development plans, economic conditions and the competitive environment in which the District operates. Readers should also review the audited financial statements for fiscal years ended June 30, 2018 and 2017, and accompanying notes to the financial statements to enhance their understanding of the District's financial performance. The audited financial statements have received an unmodified opinion from the District's independent auditor.

Financial Highlights

- Total assets increased \$3,257,720 over fiscal year 2017. Total cash and cash equivalents increased \$2,532,708 from the prior year. Net accounts receivable decreased by \$1,204,767. Net day's revenue in accounts receivable was 55 days at June 30, 2018, compared to 64 days at June 30, 2017.
- Current liabilities decreased \$367,300 from fiscal year 2017.
- The increase in total net position for fiscal year 2018 was \$1,395,030.
- Operating income was \$4,647,917 for fiscal year 2018 compared to operating income of \$1,290,749 for fiscal year 2017. Net patient revenue increased by approximately 13% and expenses from operations increased approximately 4%.
- The build out of the new Portola medical clinic is near completion and was partially funded with PRIME grants and a USDA loan in the amount of \$2,800,000. The old Portola medical clinic is being renovated and will become a dental clinic. This project is slated to be complete around February 1st of 2019 at which time, the Pine St. Clinic will become medical only.

EASTERN PLUMAS HEALTH CARE DISTRICT

Management's Discussion and Analysis

June 30, 2018 and 2017

Overview of Eastern Plumas Health Care and Financial Statements

This annual report consists of the financial statements and notes to those statements which reflect EPHC's financial position and results of its operations for the fiscal year ended June 30, 2018 and 2017. The financial statements of EPHC include the balance sheet, statement of revenues, expenses and changes in net position, and statement of cash flows.

- The statement of net position includes all of EPHC's assets and liabilities, using the accrual basis of accounting, as well as an indication about which assets are designated to fund future capital asset expenditures, which are designated as a matter of Board of Director's policy.
- The statement of revenues, expenses and changes in net position presents the results of operating activities during the fiscal year and the resulting operating loss. Non-operating revenues and expenses consist primarily of property taxes, contributions, grants, and financing costs.
- The statement of cash flows reports the net cash provided by operating activities, as well as other sources and uses of cash from investing, noncapital financing activities, and capital and related financing activities.

Statement of Net Position as of June 30, 2018 and 2017

	2018	2017
Assets		
Total current assets	\$ 7,277,085	\$ 6,255,573
Assets limited as to use	1,428,570	1,885,751
Capital assets, net	<u>9,701,973</u>	<u>7,008,584</u>
Total Assets	<u>\$ 18,407,628</u>	<u>\$ 15,149,908</u>
Liabilities and Net Position		
Total current liabilities	\$ 2,369,173	\$ 2,736,473
Deferred revenue, net of current portion	556,286	764,103
Debt borrowings, net of current portion	<u>6,076,831</u>	<u>3,639,024</u>
Total Liabilities	<u>9,002,290</u>	<u>7,139,600</u>
Net Position		
Invested in capital assets, net of debt	3,175,695	3,017,524
Unrestricted	<u>6,229,643</u>	<u>4,992,784</u>
Total Net Position	<u>9,405,338</u>	<u>8,010,308</u>
Total Liabilities and Net Position	<u>\$ 18,407,628</u>	<u>\$ 15,149,908</u>

EASTERN PLUMAS HEALTH CARE DISTRICT

Management's Discussion and Analysis

June 30, 2018 and 2017

Cash, Cash Equivalents and Investments

For fiscal year ended June 30, 2018, EPHC's cash increased from the fiscal year ended June 30, 2017. Days cash on hand, a financial measurement to determine how many days of current operating expenses our cash represents, also increased from 43 days as of June 30, 2017, to 48 days as of June 30, 2018. The following table shows EPHC's cash, cash equivalents and investments as of June 30:

	2018	2017
Cash, Cash Equivalents and Investments	\$5,090,617	\$3,015,090

Current Liabilities

Total current liabilities of the District decreased \$367,300 from fiscal year 2017. Accrued expenses increased \$52,905, accounts payable decreased \$517,616, and current maturities of debt increased \$97,411. The deferred revenue is for federal incentives received for Electronic Health Records. This revenue will be fully recognized by June 30, 2019. The current maturities of debt include amounts due within the next year on USDA construction and mortgage loans, a land loan, and capital leases.

Capital Assets

Capital assets increased to \$27,496,833 in fiscal year 2018 from \$23,839,591 in fiscal year 2017, an increase of \$3,657,242. This relates to new equipment purchases, and assets in progress for the PRIME project, the telephone system, and ambulance.

There are ongoing projects and capital asset acquisitions. These are listed below with an estimated completion date:

<u>Project Description</u>	<u>Completion Date</u>
Boiler Replacement	June 2018
Prime Mental Health Project	November 2018

EASTERN PLUMAS HEALTH CARE DISTRICT

Management's Discussion and Analysis

June 30, 2018 and 2017

Condensed Statements of Income as of June 30, 2018 and 2017

	2018	2017	Change From 2017
Total Operating Revenue	<u>\$ 29,746,635</u>	<u>\$ 25,437,248</u>	<u>\$ 4,309,387</u>
Total Operating Expenses	<u>25,098,718</u>	<u>24,146,500</u>	<u>952,218</u>
Operating Income (Loss)	<u>4,647,917</u>	<u>1,290,748</u>	<u>3,357,169</u>
Total Non-Operating Revenue	<u>486,500</u>	<u>857,294</u>	<u>(370,794)</u>
Excess of revenue over expenses	<u>5,134,417</u>	<u>2,148,042</u>	<u>2,986,375</u>
Capital Donations	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Inter-governmental Transfers	<u>(3,739,387)</u>	<u>(1,888,368)</u>	<u>(1,851,019)</u>
Increase (decrease) in net position	<u>1,395,030</u>	<u>259,674</u>	<u>1,135,356</u>
Net position - Beginning of Year	<u>8,010,308</u>	<u>7,750,634</u>	<u>259,674</u>
Net position - End of Year	<u><u>\$ 9,405,338</u></u>	<u><u>\$ 8,010,308</u></u>	<u><u>\$ 1,395,030</u></u>

Patient Days

Specialty	FY 2018	FY 2017	Percentage Change From 2017
Medical/surgical	574	377	52%
Swing	997	700	42%
Skilled nursing	<u>26,705</u>	<u>17,589</u>	<u>52%</u>
Total Patient Days	<u><u>28,276</u></u>	<u><u>18,666</u></u>	<u><u>51%</u></u>

Discharges

Specialty	FY 2018	FY 2017	Percentage Change From 2017
Medical/surgical	150	101	49%
Swing	74	45	64%
Skilled nursing	<u>94</u>	<u>95</u>	<u>-1%</u>
Total Discharges	<u><u>318</u></u>	<u><u>241</u></u>	<u><u>32%</u></u>

EASTERN PLUMAS HEALTH CARE DISTRICT

Management's Discussion and Analysis

June 30, 2018 and 2017

Average Length of Stay

Specialty	FY2018	FY2017	Percentage Change From 2017
Medical/surgical	3.8	3.6	6%
Swing	13.5	14.6	-8%
Skilled nursing	191.6	152.2	26%

Gross Patient Charges

The District charges all patients equally based on its established pricing structure for the services rendered. Under antitrust statutes and Medicare regulations, all hospitals are required to charge their patients equally if the same level of service is rendered.

Inpatient and Swing gross charges decreased \$1,431,118 or 10%. Skilled Nursing gross charges increased \$146,650 or 2%. Outpatient gross charges increased \$218,391 or 1%.

Deductions from Revenue

Contractual allowances are computed deductions based on the difference between gross charges and the contractually agreed-upon rates with third party government-based programs such as Medicare and Medi-Cal and other third-party insurers.

Contractual allowances (as a percentage of gross patient charges) were 34% for fiscal year 2017 and 24% for fiscal year 2018.

Net Patient Service Revenue

Net patient service revenue is the resulting difference between gross patient charges and the deductions from revenue. Compared to fiscal year 2017, net patient services revenues increased \$3,501,954 or 15% in fiscal year 2018.

Operating Expenses

Total operating expenses were \$25,098,718 in fiscal year 2018 compared to \$24,146,500 in fiscal year 2017. The increase of \$952,718 resulted primarily from employee wages and benefits, repairs and maintenance, and depreciation expense.

EASTERN PLUMAS HEALTH CARE DISTRICT

Management's Discussion and Analysis

June 30, 2018 and 2017

Salaries and Benefits

The District continues to focus on providing a comprehensive salary and benefit package to all employees in addition to wage adjustments and educational benefits for mission critical positions in health care. Average full-time equivalents (FTEs) for fiscal year 2018 was 205 and 2017 was 202.

Economic Factors and Next Fiscal Year's Budget

EPHC's Board of Directors approved the fiscal 2019 budget at its June 2018 meeting. The financial goals of the fiscal year 2019 budget are to increase Skilled Nursing utilization, continued expansion of clinic services, control of operating expenses and increased cash reserves. Net revenue for the District is projected to be \$27,374,899 and total operating expenses are projected to be \$26,345,819 for fiscal year end 2019. The projected change in net position is \$188,230.

EASTERN PLUMAS HEALTH CARE DISTRICT

Statements of Net Position

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 3,662,047	\$ 1,129,339
Patient accounts receivable, net of allowances	3,290,968	4,495,735
Other receivables	47,763	44,617
Estimated third-party payor settlements	-	310,560
Supplies	229,621	200,598
Prepaid expenses and deposits	46,686	74,724
Total current assets	<u>7,277,085</u>	<u>6,255,573</u>
Assets whose use is limited	1,428,570	1,885,751
Capital assets, net of accumulated depreciation	<u>9,701,973</u>	<u>7,008,584</u>
Total assets	<u><u>18,407,628</u></u>	<u><u>15,149,908</u></u>
Liabilities and Net Position		
Current liabilities		
Current maturities of long-term debt	\$ 449,447	\$ 352,036
Accounts payable and accrued expenses	790,825	1,308,441
Accrued payroll and related liabilities	<u>1,128,901</u>	<u>1,075,996</u>
Total current liabilities	<u>2,369,173</u>	<u>2,736,473</u>
Long-term debt, net of current maturities	<u>6,076,831</u>	<u>3,639,024</u>
Total liabilities	<u>8,446,004</u>	<u>6,375,497</u>
Deferred inflows of resources	556,286	764,103
Net position		
Invested in capital assets, net of related debt	3,175,695	3,017,524
Unrestricted	<u>6,229,643</u>	<u>4,992,784</u>
Total net position	<u>9,405,338</u>	<u>8,010,308</u>
	<u><u>\$ 18,407,628</u></u>	<u><u>\$ 15,149,908</u></u>

See accompanying notes to the financial statements

EASTERN PLUMAS HEALTH CARE DISTRICT

Statements of Revenues, Expenses and Changes in Net position

For The Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues		
Net patient service revenue	\$ 27,142,712	\$ 23,951,318
Other operating revenue	2,603,923	1,485,930
Total operating revenues	<u>29,746,635</u>	<u>25,437,248</u>
Operating expenses		
Salaries & wages	11,818,259	10,973,164
Employee benefits	3,437,693	3,310,348
Professional Fees	3,244,260	3,234,757
Purchased services	1,527,067	1,393,927
Supplies	1,611,672	1,793,386
Repairs & maintenance	727,140	842,096
Utilities	702,406	637,880
Rentals and leases	232,593	205,719
Insurance	318,566	396,239
Depreciation & amortization	1,029,978	1,139,771
Other operating expenses	449,084	219,213
Total operating expenses	<u>25,098,718</u>	<u>24,146,500</u>
Operating income	<u>4,647,917</u>	<u>1,290,748</u>
Nonoperating revenues (expenses)		
District tax revenues	591,374	558,369
Non-capital grants and donations	29,777	328,789
Interest expense	(212,853)	(227,743)
Other non-operating income	78,202	197,879
Total nonoperating revenues (expenses)	<u>486,500</u>	<u>857,294</u>
Excess of revenues	<u>5,134,417</u>	<u>2,148,042</u>
Inter-governmental transfers	<u>(3,739,387)</u>	<u>(1,888,368)</u>
Increase in net position	1,395,030	259,674
Net position, beginning of the year	8,010,308	7,750,634
Net position, end of year	<u><u>\$ 9,405,338</u></u>	<u><u>\$ 8,010,308</u></u>

See accompanying notes to the financial statements

EASTERN PLUMAS HEALTH CARE DISTRICT

Statements of Cash Flows

For The Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash received from patients and third-party payers	\$ 28,658,039	\$ 23,445,680
Other receipts	2,392,960	2,028,359
Cash payments to suppliers and contractors	(9,331,389)	(8,704,157)
Cash payments to employees and benefit programs	(15,203,047)	(14,151,890)
Net cash provided by operating activities	6,516,563	2,617,992
Cash flows from non-capital and related financing activities		
District tax revenue	591,374	558,369
Non-capital grants and donations	29,777	328,789
Other non-operating revenue	78,202	197,879
Inter-governmental transfers	(3,739,387)	(1,888,368)
Net cash used in non-capital and related financing activities	(3,040,034)	(803,331)
Cash flows from capital and related financing activities		
Purchase of property, plant & equipment	(3,723,367)	(787,358)
Proceeds from debt borrowings	2,917,902	-
Payments of long-term debt	(382,684)	(420,354)
Interest paid on capital debt	(212,853)	(227,743)
Net cash used in capital and related financing activities	(1,401,002)	(1,435,455)
Cash flows from investing activities		
Net change in assets limited as to use	457,181	(767,426)
Net cash provided by (used in) investing activities	457,181	(767,426)
Increase (decrease) in cash and cash equivalents	2,532,708	(388,220)
Cash and cash equivalents at beginning of year	1,129,339	1,517,559
Cash and cash equivalents at end of year	<u>\$ 3,662,047</u>	<u>\$ 1,129,339</u>

See accompanying notes to the financial statements

EASTERN PLUMAS HEALTH CARE DISTRICT

Statements of Cash Flows (continued)

For The Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of income from operations to net cash provided by operating activities		
Operating income	\$ 4,647,917	\$ 1,290,748
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,029,978	1,139,771
Changes in operating assets and liabilities		
Patient accounts receivable	1,204,767	(377,150)
Other receivables	(3,146)	382,820
Supplies	(29,023)	(4,373)
Prepaid expenses	28,038	4,495
Accounts payable and accrued expenses	(517,616)	18,938
Accrued payroll and related expenses	52,905	131,622
Third-party payor settlements	310,560	(128,488)
Deferred revenue	<u>(207,817)</u>	<u>159,609</u>
Net cash provided by operating activities	<u><u>\$ 6,516,563</u></u>	<u><u>\$ 2,617,992</u></u>

See accompanying notes to the financial statements

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES

Reporting Entity: Eastern Plumas Health Care District (the District) is a political subdivision of the state of California organized under the Local Health Care District Law as set forth in the Health and Safety Code of the state of California. The District owns and operates Eastern Plumas Hospital (the Hospital), which is located in Portola, California. The Hospital was formed in 1964 under the Local Healthcare District Law (Section 32.00 et. seq.) to provide health care services to the citizens of Plumas County. The Hospital serves the surrounding community, as well as visitors to the area throughout the year, deriving a significant portion of revenue from third-party payors, including private insurance, Medicare, and Medi-Cal.

The District maintains its financial records in conformity with guidelines set forth by the Local Health Care District Law and the Office of Statewide Health Planning and Development of the state of California.

Basis of Preparation: The accounting policies and financial statements of the District generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operational revenues and expenses.

The District uses proprietary fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Government Accounting Standard Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and AICPA Pronouncements*, the District's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989. The District has elected to apply the provisions of all relevant pronouncements as the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Financial Statement Presentation: The District applies the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement 34), as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*. Statement 34 established financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements. The impact of this change was related to the format of the financial statements; the inclusion of management's discussion and analysis; and the preparation of the statement of cash flows on the direct method. The application of these accounting standards had no impact on the total net assets.

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Management's Discussion and Analysis: Statement 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of organizations in the private sector.

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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: The District's cash and cash equivalents include cash on hand, demand deposits and short-term investments at financial institutions, and deposits in the state of California Local Agency Investment Fund (LAW), a pooled investment fund. The District considers short-term investments with original maturity of three months or less from the date of acquisition as cash and cash equivalents. The District records its deposits at fair value, which approximates cost.

Patient Accounts Receivable: Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The District manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectibility and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

Supplies: Inventories are consistently reported from year to year at cost determined by average costs and replacement values which are not in excess of market. The District does not maintain levels of inventory values such as those under a first-in, first out or last-in, first out method.

Assets Limited as to Use: Assets limited as to use include board designated assets. Assets limited as to use consist primarily of cash and cash equivalents.

Capital Assets: Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 30 years for buildings and improvements, and 3 to 10 years for equipment. The District periodically reviews its capital assets for value impairment. As of June 30, 2018 and 2017, the District has determined that no capital assets are impaired.

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Compensated Absences: The employees of the District earn vacation benefits at varying rates. These rates are determined based on the employee's years of service. This benefit can accumulate up to specified maximum levels. Accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities as of June 30, 2018 and 2017 are \$686,785 and \$659,103, respectively.

Classification of Net Position: Net position of the District is classified into three categories. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of net assets with limits on their use that are externally imposed by creditors (such as through debt covenants), grantors, contributors or by laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. Unrestricted net position consist of net assets and net deferred outflows and inflows of resources that do not meet the definition of "restricted" or "net investment in capital assets."

Net Patient Service Revenues: Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

Charity Care: The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off entirely as an adjustment to net patient service revenues.

Grants and Contributions: From time to time, the District receives grants from various governmental agencies and private organizations. The District also receives contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statement of revenues, expenses and changes in net assets.

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Operating Revenues and Expenses: The District's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the District's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Non-operating revenues and expenses are those transactions not considered directly linked to providing health care services.

Property Tax: Property taxes are levied by Plumas County on the District's behalf and are intended to support operations and to service debt. The amount of property tax received is dependent upon the assessed real property valuations as determined by the Plumas County Assessor.

Property taxes are levied on July 1 for the following fiscal year based on values as of March of that year. The county collects the taxes and pays the District based on The Teeter Plan by contract. Under this plan, the county pays the District 45% of the estimated tax collections on December 15, 42% to 43% on April 15, and the balance in August of the following year after reconciling all accounts. The county charges a collection fee of 1.7% of the taxes remitted.

Reclassifications: Certain financial statement amounts as presented in the prior year financial statements have been reclassified in these, the current year financial statements, in order to conform to the current year financial statement presentation.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

As of June 30, 2018 and 2017, the District had deposits invested in various financial institutions in the form of cash and cash equivalents amounting to \$5,088,517 and \$3,012,992, respectively. All of these funds were held in deposits, which are 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 Hospital 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.

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Investments consist of U.S. Government securities and state and local agency funds invested in U. S. Government securities and are stated at quoted market values. Changes in market value between years are reflected as a component of investment income in the accompanying statement of revenues, expenses and changes in net assets.

NOTE 3 - NET PATIENT SERVICE REVENUES AND REIMBURSEMENT PROGRAMS

The District renders services to patients under contractual arrangements with the Medicare and Medi-Cal programs, commercial insurance companies, health maintenance organizations (HMOs) and preferred provider organizations (PPOs). Patient service revenues from these programs approximate 97% of gross patient service revenues for the years ended June 30, 2018 and 2017.

The Medicare Program reimburses the District on a cost basis payment system for inpatient and outpatient hospital services. The cost based reimbursement is determined based on filed Medicare cost reports. Skilled nursing services are reimbursed on a predetermined amounts based on the Medicare rates for the services.

The District contracts to provide services to Medi-Cal, HMO and PPO inpatients on negotiated rates. Certain outpatient reimbursement is subject to a schedule of maximum allowable charges for Medi-Cal and to a percentage discount for HMOs and PPOs. The skilled nursing facility (SNF) is reimbursed by the Medi-Cal program on a prospective per diem basis subject to audit by the state. The results of the state audits are incorporated prospectively and are subject to appeal by the provider.

Both the Medicare and Medi-Cal program's administrative procedures preclude final determination of amounts due to the District for services to program patients until after patients' medical records are reviewed and cost reports are audited or otherwise reviewed by and settled with the respective administrative agencies. The Medicare and Medi-Cal cost reports are subject to audit and possible adjustment. Management is of the opinion that no significant adverse adjustment to the recorded settlement amounts will be required upon final settlement.

Medicare and Medi-Cal revenue accounted for approximately 85% of the District's net patient revenues for the year ended June 30, 2018 and 82% for the year ended June 30, 2017. Laws and regulations governing the Medicare and Medi-Cal 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.

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 4 - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2018 and 2017 were comprised of government investment funds and are assets designated by the board for specific purposes. Assets limited as to use as of June 30, 2018 and 2017 totaled \$1,428,570 and \$1,885,751, respectively.

Investment income related to assets limited as to use is recorded as investment income. These amounts were \$18,316 and 8,227 for the years ended June 30, 2018 and 2017, respectively. Total investment income includes both income from operating cash and cash equivalents and cash and cash equivalents related to assets limited as to use.

NOTE 5 - INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2018 and 2017:

2018				
	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Government investment funds	\$ 1,428,570	\$ 1,428,570	\$ -	\$ -
Money market accounts	3,965,452	3,965,452	-	-
Total investments	<u>\$ 5,394,022</u>	<u>\$ 5,394,022</u>	<u>\$ -</u>	<u>\$ -</u>
2017				
	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Government investment funds	\$ 1,885,751	\$ 1,885,751	\$ -	\$ -
Money market accounts	1,256,132	1,256,132	-	-
Total investments	<u>\$ 3,141,883</u>	<u>\$ 3,141,883</u>	<u>\$ -</u>	<u>\$ -</u>

The District's investments are reported at fair value as previously discussed. The District's investment policy allows for various forms of investments generally set to mature within a few months to others over 15 years. The policy identifies certain provisions which address interest rate risk, credit risk and concentration of credit risk.

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 5 – INVESTMENTS (continued)

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 shows 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 in such obligations are in U.S. government funds. The District believes that there is minimal credit risk with these obligations 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, investment companies or government agencies. The District believes that 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's investments are held as follows: governmental agencies 26% and banks 74%. The District believes that 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.

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 6 - CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe that there is any credit risk associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District. Concentration of patient accounts receivable at June 30, 2018 and 2017 were as follows:

	2018	2017
Medicare	\$ 1,512,274	\$ 2,548,034
Medi-Cal and Medi-Cal pending	1,854,548	2,496,236
Other third party payors	1,657,114	1,207,593
Self pay and other	<u>420,691</u>	<u>333,968</u>
Gross patient accounts receivable	5,444,627	6,585,831
Less allowances for contractual adjustments and bad debts	<u>(2,153,659)</u>	<u>(2,090,096)</u>
Net patient accounts receivable	<u>\$ 3,290,968</u>	<u>\$ 4,495,735</u>

NOTE 7 - CAPITAL ASSETS

Capital assets as of June 30, 2018 and 2017 were comprised of the following:

	Balance at June 30, 2017	Transfers & Additions	Transfers & Retirements	Balance at June 30, 2018
Land and land improvements	\$ 934,164	\$ 14,522	\$ -	\$ 948,686
Buildings and improvements	10,296,412	311,759	-	10,608,171
Equipment	12,074,379	440,070	-	12,514,449
Construction-in-progress	<u>534,636</u>	<u>2,957,016</u>	-	<u>3,491,652</u>
Totals at historical cost	23,839,591	<u>\$ 3,723,367</u>	<u>\$ -</u>	27,562,958
Less accumulated depreciation	<u>(16,831,007)</u>	<u>\$ (1,029,978)</u>	<u>\$ -</u>	<u>(17,860,985)</u>
Capital assets, net	<u>\$ 7,008,584</u>			<u>\$ 9,701,973</u>

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 7 - CAPITAL ASSETS (continued)

	Balance at June 30, 2016	Transfers & Additions	Transfers & Retirements	Balance at June 30, 2017
Land and land improvements	\$ 934,164	\$ -	\$ -	\$ 934,164
Buildings and improvements	10,147,957	148,455	-	10,296,412
Equipment	11,788,978	289,701	(4,300)	12,074,379
Construction-in-progress	185,434	349,202	-	534,636
Totals at historical cost	23,056,533	<u>\$ 787,358</u>	<u>\$ (4,300)</u>	23,839,591
Less accumulated depreciation	(15,695,536)	<u>\$ (1,139,771)</u>	<u>\$ 4,300</u>	(16,831,007)
Capital assets, net	<u>\$ 7,360,997</u>			<u>\$ 7,008,584</u>

NOTE 8 - RETIREMENT PLANS

The District established the Eastern Plumas Health Care District Executive Deferred Compensation Plan funded exclusively through the purchase of annuity contracts from The Variable Annuity Life Insurance Company. District employees are eligible after completion of one year of service and continued participation requires at least 1,000 hours of service each year. The District's contributions are discretionary. District contributions are vested 20% after one year of service with vesting increasing by 20% each year thereafter until fully vested. Total discretionary pension expense for the years ended June 30, 2018 and 2017, was \$266,352 and \$147,614, respectively.

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 9 - DEBT BORROWINGS

Long-term debt consists of notes payable and capital lease obligations as follows:

	<u>2018</u>	<u>2017</u>
Note payable to USDA, original amount of \$4,600,000, bearing interest at 4.5%, principal and interest payable monthly in the amount of \$23,322, maturing in December 2031, secured by property and improvements.	\$ 2,826,771	\$ 2,975,622
Note payable to USDA, original amount of \$575,000, bearing interest at 6.7%, principal and interest payable monthly in the amount of \$3,708, maturing in December 2033, secured by property and improvements.	418,816	435,209
Note payable to the City of Portola, original amount of \$348,000, bearing interest at 1.5%, principal and interest payable monthly in the amount of \$2,454, maturing in October 2026, secured by property.	228,864	254,798
Note payable to the Rural Communities Assistance Corporation, original amount of \$2,607,388, bearing interest at 5.0%, principal and interest payable monthly in the amount of \$18,037, maturing in March 2039, secured by property.	2,607,388	-
Notes payable to finance companies, aggregate original amount of \$1,290,157, bearing interest at rates from 4.1% to 6.9%, principal and interest payable monthly in various amounts, maturing at various dates from June 2017 to December 2019, secured by equipment.	<u>444,439</u>	<u>325,431</u>
Total debt borrowings	6,526,278	3,991,060
Less current maturities	<u>(449,447)</u>	<u>(352,036)</u>
Debt borrowings, net of current maturities	<u>\$ 6,076,831</u>	<u>\$ 3,639,024</u>

Future principal maturities for debt borrowings for the next five years are: \$449,447 in 2019; \$443,306 in 2020; \$410,534 in 2021; \$382,840 in 2022; \$333,687 in 2023; and \$4,506,464 thereafter.

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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.

Litigation: The District may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2018 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

Workers Compensation Program: The District is a participant in the Association of California Hospital District's ALPHA Fund which administers a self-insured worker's compensation plan for participating hospital employees of its member hospitals. The District pays premiums to the ALPHA Fund which are adjusted annually. If participation in the ALPHA Fund is terminated by the District, the District would be liable for its share of any additional premiums necessary for final disposition of all claims and losses covered by the ALPHA Fund.

Health Insurance Portability and Accountability Act: The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management continues to evaluate the impact of this legislation on its operations including future financial commitments that will be required.

Operating leases - The Hospital leases various equipment and facilities under operating leases expiring at various dates. Lease and rental expense under such agreements was \$232,593 and \$205,719 for the years ended June 30, 2018 and 2017 respectively. Future minimum lease payments for the succeeding years under operating leases as of June 30, 2018, with initial or remaining lease terms in excess of one year are not considered material.

Construction-in-Progress: As of June 30, 2018 and 2017, the District had recorded \$3,491,652 and \$534,636, respectively, as construction-in-progress representing cost capitalized for various remodeling, major repair, and EMR projects on the District's premises. Estimated costs to complete current obligated construction-in-progress projects as of June 30, 2018 are approximately \$200,000. Costs are to be financed with District reserves, grant and donation funds and continued Hospital operations.

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

Health Care Reform: The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, 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.

NOTE 11- CHARITY CARE AND COMMUNITY BENEFIT EXPENSE

The Hospital maintains records to identify and monitor the level of charity care and community service it provides. These records include: the amount of charges foregone (based on established rates) for services and supplies furnished under its charity care and community service policies and the estimated cost of those services and supplies.

The following is a summary of the Hospital's charity care and community benefit expense for the years ended June 30, 2018 and 2017, in terms of services to the poor and benefits to the broader community:

	2018	2017
Benefits for the poor:		
Traditional charity care and related programs	\$ 306,768	\$ 386,226
Total quantifiable benefits for the poor	306,768	386,226
Benefits for the broader community:		
Unpaid Medicare program charges	9,061,883	8,201,377
Unpaid MediCal program charges	3,759,809	3,136,785
Total quantifiable benefits for the broader community	12,821,692	11,338,162
Total quantifiable community benefits	<u>\$ 13,128,460</u>	<u>\$ 11,724,388</u>

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 12 – EASTERN PLUMAS HEALTHCARE DISTRICT FOUNDATION

The Eastern Plumas Healthcare District Foundation (the Foundation), has been established as a nonprofit public benefit corporation to solicit contributions on behalf of the District. Substantially all funds raised, except for funds required for operation of the Foundation, are distributed to the District or held for the benefit of the District. The Foundation's funds, which represent the Foundation's unrestricted resources, are distributed 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 and equipment replacement, expansion, or other specific purposes. Because management believes the resources of the Foundation are significant to the Hospital, the Foundation is considered a component unit of the District. The District is not financially accountable for the activities of the Foundation and has determined that disclosure of unaudited condensed financial statements of the Foundation is the most appropriate presentation of component unit data.

Eastern Plumas Healthcare District Foundation
Unaudited Condensed Statement of Net Assets
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 138,100	\$ 132,583
Restricted cash and cash equivalents	207,467	188,950
Commercial property	605,222	647,053
Other assets	3,510	3,510
Total assets	954,299	972,096
Liabilities		
Mortgage payable	591,965	608,381
Total liabilities	591,965	608,381
Net assets	\$ 362,334	\$ 363,715

EASTERN PLUMAS HEALTH CARE DISTRICT

Notes to Financial Statements

June 30, 2018 and 2017

NOTE 12 – EASTERN PLUMAS HEALTHCARE DISTRICT FOUNDATION (continued)

Unaudited Condensed Statements of Activities For the Years Ended June 30, 2018 and 2017

	2018	2017
Total support	\$ 72,390	\$ 231,381
Expenses	(73,164)	(96,303)
Donations to District	(607)	(75,029)
Net increase (decrease) in net assets	(1,381)	60,049
Net assets, beginning	363,715	303,666
Net assets, end	<u>\$ 362,334</u>	<u>\$ 363,715</u>

The District received \$607 in contributions from the Foundation in the year ended June 30, 2018 and \$75,029 in contributions in the year ended June 30, 2017. 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.