

Plumas District Hospital

Quincy, California

Financial Statements

Years Ended June 30, 2017 and 2016

WIPFLI^{LLP}
CPAs and Consultants

Plumas District Hospital

Years Ended June 30, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Plumas District Hospital
Quincy, California

Report on the Financial Statements

We have audited the accompanying financial statements of Plumas District Hospital (the "District"), as of and for the year ending June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Prior Period Financial Statements

The financial statements of the District as of June 30, 2016, were audited by other auditors whose report dated March 29, 2017, expressed an unmodified opinion on those statements.

Other Matters-Required Supplementary Information

Accounting principles generally accepted in the United States 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, 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.

Wipfli LLP

Wipfli LLP

April 26, 2018
Spokane, Washington

Plumas District Hospital

Management's Discussion and Analysis

Year Ended June 30, 2017

Introduction

Plumas District Hospital (the "District"), offers readers of our financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended June 30, 2017 and 2016. We encourage readers to consider the information presented here in conjunction with the District's financial statements, including the notes thereto.

The District was created in 1955 as a political subdivision of the State of California, organized under The Local Health Care District Law of the State of California, constituting Division 23 of the California Health and Safety Code. The District currently owns and operates Plumas District Hospital (the "Hospital") representing 25 licensed beds (23 general acute care and two perinatal), two rural health clinics and a dental clinic located in Quincy, California, and a rural health clinic in Greenville, California (collectively, the "Clinics"). Hospital services include 24-hour emergency care, obstetrics, surgery, outpatient laboratory and imaging, and respiratory therapy. Clinic services encompass family medicine, women's health, nutrition services, counseling and subspecialties in telemedicine. Visiting on-site specialists include orthopedics, podiatry, urology neurology, neurosurgery, cardiology, gynecology, and pain management.

The District is located in the central portion of Plumas County and covers an area approximately 424 square miles. The permanent resident population of the District is approximately 5,600. Seasonal influxes increase the population to over 10,000. The nearest tertiary facilities to the Hospital are located 80 miles east and west, in Reno, Nevada, and Chico, California, respectively.

The Hospital is certified as a critical access hospital (CAH) and the Clinics are certified as rural health clinics (RHC) by the Centers for Medicare & Medicaid Services (CMS). CAHs and RHCs represent separate provider types with their own Medicare Conditions of Participation as well as a separate payment method, based on cost. Reimbursement based on cost from Medicare and Medi-Cal affords the District its ability to maintain certain services that otherwise would not be practicable under the prospective payment system (PPS) reimbursement methodology.

The District employed 219 employees on June 30, 2017, and had an annual payroll of \$9.7 million, not including benefits.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements. The financial statements are composed of the statements of net position; the statements of revenue, expenses, and changes in net position; and the statements of cash flows. The financial statements also include notes to the financial statements that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the District's finances.

Plumas District Hospital

Management's Discussion and Analysis (Continued)

Year Ended June 30, 2017

Required Financial Statements

The District's financial statements report information of the District using accounting methods similar to those used by private-sector health care organizations. These statements offer short-term and long-term information about its activities. The statements of net position include all of the District's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). The statements of net position also provide the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the revenue and expenses for the years ended June 30, 2017 and 2016, are accounted for in the statements of revenue, expenses, and changes in net position. These statements can be used to determine whether the District has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenue and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final required statements are the statements of cash flows which report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Highlights

- The District's net position increased by \$3,681,202 in the past year from \$6,209,450 at June 30, 2016, to \$9,890,652 at June 30, 2017. In the prior year, the District's net position decreased by \$1,641,171 from \$7,850,621 at June 30, 2015, to \$6,209,450 at June 30, 2016.
- Gross patient revenue decreased 1.0% from \$43,668,254 in fiscal year 2016 to \$43,240,225 in fiscal year 2017. Revenue deductions decreased 31.4% in the past year from \$24,648,737 to \$16,916,917. Operating expenses increased 6.3% in the past year from \$21,586,806 to \$22,955,594 in fiscal year 2017.

Financial Analysis of the District

The statements of net position and the statements of revenue, expenses, and changes in net position report the net position of the District and the changes in net position. The District's net position, the difference between assets and liabilities, is a way to measure the financial health or financial position of an organization. Over time, sustained increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic condition, population growth, and new or changed governmental legislation should also be considered.

Plumas District Hospital

Management's Discussion and Analysis (Continued)

Year Ended June 30, 2017

Financial Analysis of the District (Continued)

The following table presents a summary of the statements of net position for the years ended June 30, 2017, 2016, and 2015:

Condensed Statements of Net Position (In Thousands)

June 30,	2017	2016	2015	2017-2016		2016-2015	
				\$ Change	% Change	\$ Change	% Change
Current assets	\$ 12,534	\$ 5,178	\$ 7,110	\$ 7,356	142.06 %	\$ (1,932)	-27.17 %
Investments	207	204	204	3	1.47 %	-	- %
Capital assets - Net	5,088	4,741	5,155	347	7.32 %	(414)	-8.03 %
Total assets	\$ 17,829	\$ 10,123	\$ 12,469	\$ 7,706	76.12 %	\$ (2,346)	-18.81 %
Current liabilities	\$ 5,986	\$ 3,804	\$ 3,753	\$ 2,182	57.36 %	\$ 51	1.36 %
Noncurrent liabilities	1,952	109	865	1,843	1,690.83 %	(756)	-87.40 %
Total liabilities	7,938	3,913	4,618	4,025	102.86 %	(705)	-15.27 %
Net position:							
Net investment in capital assets	1,933	3,857	3,768	(1,924)	-50 %	89	2.36 %
Restricted expendable net position	296	352	81	(56)	-15.91 %	271	334.57 %
Unrestricted	7,662	2,001	4,002	5,661	282.91 %	(2,001)	-50.00 %
Total net position	9,891	6,210	7,851	3,681	59.28 %	(1,641)	-20.90 %
Total liabilities and net position	\$ 17,829	\$ 10,123	\$ 12,469	\$ 7,706	76.12 %	\$ (2,346)	-18.81 %

The District's statements of net position reflect an increase that is caused mostly by Inter-Governmental Transfer (IGT) receivables due from third-party reimbursement programs, positively impacting current assets.

- Current assets increased by approximately \$7,356,000 in 2017 and decreased by \$1,932,000 in 2016. In turn, current liabilities increased by approximately \$2,182,000 in 2017 as the District injected working capital liquidity into operations.
- The increase in noncurrent liabilities of \$1,843,017 in 2017 reflect the District's issuance of long-term debt and general obligation bonds for the purpose of capital improvements.

Plumas District Hospital

Management's Discussion and Analysis (Continued)

Year Ended June 30, 2017

Financial Analysis of the District (Continued)

The following table presents a summary of the statements of revenue, expenses, and changes in net position for the years ended June 30, 2017, 2016, and 2015:

Condensed Statements of Revenue, Expenses, and Changes in Net Position (In Thousands)

	2017	2016	2015	2017-2016		2016-2015		
				\$ Change	% Change	\$ Change	% Change	
Operating revenue:								
Net patient service revenue	\$ 25,765	\$18,631	\$ 18,268	\$ 7,134	38.29 %	\$ 363	1.99 %	
Other operating revenue	208	637	575	(429)	-67.35 %	62	10.78 %	
Total operating revenue	25,973	19,268	18,843	6,705	34.80 %	425	2.26 %	
Operating expenses:								
Salaries, wages, and benefits	11,812	11,354	11,468	458	4.03 %	(114)	-0.99 %	
Professional fees and purchased services	6,965	6,182	4,807	783	12.67 %	1,375	28.60 %	
Supplies	1,845	1,837	1,450	8	0.44 %	387	26.69 %	
Repairs and maintenance	304	295	379	9	3.05 %	(84)	-22.16 %	
Rents and leases	57	56	49	1	1.79 %	7	14.29 %	
Utilities	519	426	352	93	21.83 %	74	21.02 %	
Insurance	264	236	239	28	11.86 %	(3)	-1.26 %	
Other	663	387	482	276	71.32 %	(95)	-19.71 %	
Depreciation	527	814	1,086	(287)	-35.26 %	(272)	-25.05 %	
Total operating expenses	22,956	21,587	20,312	1,369	6.34 %	1,275	6.28 %	
Gain (loss) from operations	3,017	(2,319)	(1,469)	5,336	230.10 %	(850)	-57.86 %	
Nonoperating revenue - Net	664	678	521	(14)	-2.06 %	157	30.13 %	
Capital contributions	-	-	48	-	- %	(48)	-100.00 %	
Excess (deficiency) of revenue over expenses	3,681	(1,641)	(900)	5,322	324.31 %	(741)	-82.33 %	
Net position at beginning	6,210	7,851	8,751	(1,641)	-20.90 %	(900)	-10.28 %	
Net position at end	\$ 9,891	\$ 6,210	\$ 7,851	\$ 3,681	59.28 %	\$ (1,641)	-20.90 %	

Plumas District Hospital

Management's Discussion and Analysis (Continued)

Year Ended June 30, 2017

Financial Analysis of the District (Continued)

Net patient service revenue increased 38.3% in 2017. The increase was caused largely by decreased revenue deductions and allowances, reflecting improved billing processes and increased IGT receivables.

Total operating expenses increased 6.3% compared to the previous year's increase of 6.3%. Major increases included:

- Salaries, wages, and benefit expenses increased by 4.0% due to wage increases and additional employees. The total number of full-time equivalent employees was 191 and 188, in 2017 and 2016, respectively.
- Professional fees and purchased services increased by 12.6% due to increased reliance on contracted RN and technician positions.
- Other operating expenses increased by 71.4% due to additional recruiting, software, licensure, and late fees.

Items Affecting Operations

The challenges facing the District this fiscal period are largely similar, although varying in degree of intensity, to those issues facing the health care industry in general and for small rural hospitals in particular. Where the immediate environment and circumstances uniquely influence the District, these areas are also highlighted in the discussion below:

- Reimbursement: Medicare and Medi-Cal programs continue to look for ways to reduce reimbursement.
- Indigent and Uncompensated Care: High uncompensated care continues to grow as eligibility requirements are raised for government-funded programs.
- Labor: Nursing and some technician positions continue to be difficult to recruit and retain.
- Seismic Building Compliance: The state of California has imposed new hospital seismic safety standards.

In summary, the external environment continues to challenge hospitals, small rural hospitals in particular, with continuing declines in reimbursement, increases in uncompensated care, and ongoing labor and health insurance issues. At the same time, the District's employees are working together to continue to find ways to make progress on improving how the District organizes and processes work in such a way that it continues to improve clinical care and service to its patients and community, all the while striving to improve its financial position and overall fiscal performance.

Plumas District Hospital

Management's Discussion and Analysis (Continued)

Year Ended June 30, 2017

Capital Assets and Debt Administration

The District spent \$873,933 and \$391,280 on capital expenditures in 2017 and 2016, respectively. The majority of the expenditures were related to capital projects and equipment purchases.

The District incurred new long-term debt of \$3,879,750 in 2017 and has outstanding long-term debt in the amount of \$3,933,373 and \$883,784 in 2017 and 2016, respectively. The District reduced its long-term liabilities by \$830,161 and \$729,221 during 2017 and 2016, respectively.

More information about the District's capital assets, debt instruments, and commitments is presented in Notes 8 and 9 to the financial statements.

Contacting the District's Finance Management

This financial report provides the District's patients, citizens, taxpayers, investors, and creditors with a general overview of the District's finances and shows the District's accountability for the money it receives. For questions regarding this report or for additional financial information, please contact:

Chief Financial Officer
Plumas District Hospital
1065 Bucks Lane Road
Quincy, California 95971

Plumas District Hospital

Statements of Net Position

<i>June 30,</i>	2017	2016
Current assets:		
Cash and cash equivalents:		
Cash and cash equivalents	\$ 3,648,099	\$ 372,852
Restricted cash	296,139	351,701
Receivables:		
Patient - Net	3,910,477	3,652,990
Other	48,495	43,555
Prepays	126,467	93,181
Inventories	506,417	478,749
Due from third-party reimbursement programs	3,998,518	185,308
Total current assets	12,534,612	5,178,336
Noncurrent assets:		
Investments	206,840	203,610
Nondepreciable capital assets	2,753,777	2,323,428
Depreciable capital assets - Net	2,334,052	2,417,700
Noncurrent assets - Net	5,294,669	4,944,738
TOTAL ASSETS	\$ 17,829,281	\$ 10,123,074

Plumas District Hospital

Statements of Net Position (Continued)

<i>June 30,</i>	2017	2016
Current liabilities:		
Current portions of long-term debt	\$ 1,951,195	\$ 719,239
Current portion of obligations under capital leases	30,050	55,434
Accounts payable	2,639,513	1,555,350
Accrued compensation and related liabilities	1,358,053	1,200,827
Accrued interest	7,690	3,221
Due to third-party reimbursement programs	-	270,442
Total current liabilities	5,986,501	3,804,513
Long-term liabilities:		
Long-term debt - Net of current portions	1,870,853	-
Obligations under capital leases - Net of current portions	81,275	109,111
Total long-term liabilities	1,952,128	109,111
Total liabilities	7,938,629	3,913,624
Net position:		
Net invested in capital assets	1,933,158	3,857,344
Restricted for debt service	296,139	351,701
Unrestricted	7,661,355	2,000,405
Total net position	9,890,652	6,209,450
TOTAL LIABILITIES AND NET POSITION	\$ 17,829,281	\$ 10,123,074

Plumas District Hospital

Statements of Revenue, Expenses, and Changes in Net Position

<i>Years Ended June 30,</i>	2017	2016
Operating revenue:		
Net patient service revenue	\$ 25,764,743	\$ 18,631,163
Other operating income	208,003	636,592
Total operating revenue	25,972,746	19,267,755
Operating expenses:		
Salaries and wages	9,711,118	9,404,473
Employee benefits	2,100,855	1,949,421
Professional fees	3,634,838	3,541,151
Supplies	1,845,144	1,836,725
Purchased services	3,329,551	2,641,880
Repairs and maintenance	303,484	294,990
Rents and leases	57,429	56,198
Utilities	519,320	425,831
Insurance	263,956	235,953
Other	662,667	386,678
Depreciation	527,232	813,506
Total operating expenses	22,955,594	21,586,806
Operating income (loss)	3,017,152	(2,319,051)
Nonoperating revenue (expenses):		
Property taxes	611,702	544,747
Interest income	6,859	21,526
Other income	135,818	165,461
Interest expense	(90,329)	(53,854)
Other nonoperating income	664,050	677,880
Excess (deficiency) of revenue over expenses	3,681,202	(1,641,171)
Net position - Beginning of year	6,209,450	7,850,621
Net position - End of year	\$ 9,890,652	\$ 6,209,450

Plumas District Hospital

Statements of Cash Flows

<i>Years Ended June 30,</i>	2017	2016
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 22,184,142	\$ 19,349,822
Receipts from other operating revenue	208,003	1,427,283
Payments to suppliers and contractors	(10,353,718)	(9,547,664)
Payments to employees	(11,654,747)	(11,239,738)
Net cash provided by (used in) operating activities	383,680	(10,297)
Cash flows from noncapital financing activities:		
Property taxes received for operating purposes	345,804	336,314
Grants and other support received	130,878	155,617
Net cash provided by noncapital financing activities	476,682	491,931
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(873,933)	(391,280)
Change in assets held by trustee	55,562	123,572
Principal payments on long-term debt and capital lease obligations	(830,161)	(729,221)
Interest paid on long-term debt and capital lease obligations	(85,860)	(67,607)
Proceeds from bonds and long-term notes	3,879,750	-
Property taxes received for debt repayment	265,898	186,673
Net cash provided by (used in) capital and related financing activities	2,411,256	(877,863)
Cash flows provided by investing activities:		
Interest income	6,859	21,526
Change in investments	(3,230)	1,730
Net cash provided by investing activities	3,629	23,256
Net increase (decrease) in cash and cash equivalents	3,275,247	(372,973)
Cash and cash equivalents - Beginning of year	372,852	745,825
Cash and cash equivalents - End of year	\$ 3,648,099	\$ 372,852

Plumas District Hospital

Statements of Cash Flows (Continued)

<i>Years Ended June 30,</i>	2017	2016
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 3,017,152	\$ (2,319,051)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	527,232	813,506
Provision for bad debts	558,565	388,354
Changes in operating assets and liabilities:		
Patient receivables - Net	(816,052)	854,066
Inventories	(27,668)	(96,634)
Prepays	(33,286)	284,089
Due to (from) third-party reimbursement programs	(4,083,652)	225,146
Accounts payable	1,084,163	(269,976)
Accrued liabilities	157,226	110,203
Total adjustments	(2,633,472)	2,308,754
Net cash provided by (used in) operating activities	\$ 383,680	\$ (10,297)

Plumas District Hospital

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies

The Entity

Plumas District Hospital (the “District”) is a political subdivision of the state of California, organized under Local Health Care District Law, as set forth in the Health and Safety Code of the state of California. The District operates a community hospital located in Quincy, California, which provides health care services to residents of the surrounding communities and visitors to the area. The District derives a significant portion of revenue from third-party payors including Medicare, Medi-Cal, and commercial insurance organizations.

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

Method of Accounting

The District’s financial statements are presented using the flow of economic resources measurement focus, which uses the accrual basis of accounting.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as prescribed by Governmental Accounting Standards Board (GASB).

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that directly 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 revenue and expenses during the reporting period. Actual results may differ from these estimates.

The District considers critical accounting estimates to be those that require more significant judgments and include the valuation of accounts receivable, including contractual allowances, allowance for doubtful accounts, and the estimated third-party payor settlements.

Plumas District Hospital

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Cash, Cash Equivalents, and Investments

The District considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding assets limited as to use.

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government or its agencies; bankers' acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium-term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

All investments are stated at fair value. Investment income includes changes in fair value of investments, interest, and realized gains and losses.

Patient Accounts Receivable and Credit Policy

Patient receivables are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for co-pay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement. The District does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying statements of net position, net of contractual adjustments and an allowance for doubtful accounts, which reflects management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probable uncollectible amounts, primarily for uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to a valuation allowance.

In evaluating the collectability of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful 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 doubtful accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for expected uncollectible deductibles and copayments on accounts that 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.

Plumas District Hospital

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable and Credit Policy (Continued)

For receivables associated with self-pay patients (which includes 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 doubtful accounts.

Tax Receivables

Tax receivables, which are recorded in other receivables on the statements of net position, are amounts due from Plumas County. Ad valorem taxes and per-parcel assessments are levied by the county on the District's behalf. The District receives distributions of proceeds from these taxes based on an apportionment schedule and accrues such revenue ratably over the year.

Inventories

Supplies are valued at the lower of cost, determined on the first-in, first-out (FIFO) method, or market.

Restricted Cash

Assets held by the trustees under indenture agreements are used by the trustees to make principal, interest, and insurance payments related to bonds and to maintain reserve funds as required by the bond agreements.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. A three-tier hierarchy prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs therefore requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement within the hierarchy is based on techniques that maximize the use of relevant observable inputs and minimizes the use of unobservable inputs.

Plumas District Hospital

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets and Depreciation

Capital assets are recorded at cost, if purchased, or acquisition value at the date received, if contributed. The District maintains a threshold level of a unit or group cost of \$5,000 or more for capitalizing capital assets. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Estimated useful lives range from 5 to 25 years for land improvements and buildings and fixed equipment, 2 to 20 years for major moveable equipment, and 3 to 5 years for computer software.

Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired, if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent on the event or circumstance in which the impairment occurred. Impairment losses, if any, are reported in the statements of revenue, expenses, and changes in net position. There were no impairment losses recorded in the years ended June 30, 2017 and 2016.

Accrued Compensated Absences

The District's employees earn paid time-off (PTO) at varying rates depending on years of service. Any days not used at year-end do not expire. PTO is limited to a maximum of 350 hours accrued per eligible employee. Liabilities for PTO and salary-related payments, including social security taxes, are recorded when incurred. Accrued PTO benefits, which are recorded in accrued expenses on the statements of net position, totaled \$562,804 and \$526,505 as of June 30, 2017 and 2016, respectively.

Plumas District Hospital

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

Net position is reported in three categories:

Net investment in capital assets: This category consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build, acquire, or improve those assets. Deferred outflows of resources and deferred inflow of resources that are attributable to the construction, acquisition, or improvement of those assets or the related debt are also included in this category. Unspent portions of capital-related debt proceeds are not included in this category.

Restricted: Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted: This category consists of the remaining net position that does not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is the District's to use externally restricted resources first.

Net Patient Service Revenue

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. Certain third-party payor reimbursement agreements are subject to audit and retrospective adjustments. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Tax Revenue

Property taxes are levied by Plumas County on the District's behalf and are generally intended to support operations. However, the ad valorem tax levied in connection with the 2008 general obligation bonds is restricted to service the debt on the bonds. The amount of property tax received is dependent upon the assessed real property valuations, as determined by the Plumas County Assessor. The District received approximately 2.3% and 2.7% of its financial support in 2017 and 2016, respectively, from property taxes to support operations. Ad valorem tax restricted to debt service on the 2008 general obligation bonds approximated 1.0% and 0.9% of total support in 2017 and 2016, respectively.

Taxes are collected by the Plumas County Tax Collector for property located within the District's taxing boundaries. Taxes and assessments on the secured roll are payable in two installments on November 1 and February 1 of each fiscal year and become delinquent on December 10 and April 10, respectively. Taxes on unsecured property are assessed and payable as of the January lien date and become delinquent the following August 31.

Plumas District Hospital

Notes to the Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Operating Revenue and Expenses

The District's statements of revenue, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing health care services, the District's principal activity. Nonexchange revenue, including taxes and donations received for purposes other than capital asset acquisition, is reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The District maintains records to identify the amount of charges forgone for services and supplies furnished under the charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient and resident service revenue.

Grants and Contributions

The District receives grants as well as contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) is recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or capital purposes. Amounts that are unrestricted or are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue (expenses).

Tax Status

The District is a local agency of the state of California within the meaning of Section 56054 of the CGC. Accordingly, the District is exempt from federal income and state income, property, and franchise taxes.

Advertising Costs

Advertising costs are expensed as incurred.

Subsequent Events

Subsequent events have been evaluated through April 26, 2018, which is the date the financial statements were issued.

Plumas District Hospital

Notes to the Financial Statements

Note 2: Reimbursement Arrangements With Third-Party Payors

The District has agreements with third-party payors that provide for reimbursement to the District at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

Hospital

Medicare - The District is designated as a CAH. Under this designation, inpatient, outpatient, and swing bed services rendered to Medicare program beneficiaries are paid based on a cost-reimbursement methodology, with the exception of certain lab and mammography services, which are reimbursed based on fee schedules.

Medi-Cal - Under CAH designation, inpatient and swing bed services rendered to Medi-Cal program beneficiaries are paid based on a cost-reimbursement methodology. The reimbursement for outpatient services is based on a fee schedule. The District also applies for and receives supplemental reimbursement for its inpatient and outpatient services. The supplemental reimbursement is based on a cost-reimbursement methodology.

Physician and Professional Services in RHCs

Certain physician and professional services rendered to Medicare and Medi-Cal beneficiaries qualify for reimbursement as Medicare-approved rural health clinic services. Qualifying services are reimbursed based on a cost-reimbursement methodology.

Others

The District has also 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 discounts from established charges and prospectively determined daily rates.

Accounting for Contractual Arrangements

The District is reimbursed for certain cost-reimbursable items at an interim rate, and final settlements are determined after an audit of the District's related annual cost reports by the respective Medicare and Medi-Cal fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements. The District's cost reports have been audited by the Medicare and Medi-Cal fiscal intermediaries through June 30, 2015 and June 30, 2013, respectively.

Plumas District Hospital

Notes to the Financial Statements

Note 2: Reimbursement Arrangements With Third-Party Payors (Continued)

Compliance

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 billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. 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 substantial compliance with applicable government laws and regulations. While no significant regulatory inquiries have been made of the District, 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.

CMS uses recovery audit contractors (RAC) as part of CMS's efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to health care providers and not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. As of June 30, 2017, the District has not been notified by the RAC of any potential significant reimbursement adjustments.

Plumas District Hospital

Notes to the Financial Statements

Note 3: Cash, Cash Equivalents, and Investments

Deposits

Custodial Credit Risk - The risk that, in the event of a bank failure, the District's deposits might not be recovered. The District has a collateralization agreement with the bank that mitigates custodial credit risk. Deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The entire balance held at the bank is subject to the collateralization agreement in addition to the FDIC coverage. The county treasurer's investment pool is operated under state law and overseen by elected officials. The deposits in the state investment pool are pooled investments, which are not evidenced by specific securities. The pool, not the participating investor, faces custodial credit risk.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit used by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits.

At June 30, 2017 and 2016, the net carrying amounts of deposits were \$3,854,939 and \$576,462, respectively, and the bank balances were \$3,423,297 and \$328,007, respectively. Of the bank balances, \$250,000 each year was covered by federal deposit insurance and \$3,173,297 and \$78,007, respectively, was collateralized in accordance with the requirements discussed in the previous paragraph.

Cash, cash equivalents, and investments consisted of the following at June 30:

	Fair Value	
	2017	2016
Cash and cash equivalents:		
Petty cash	\$ 1,450	\$ 1,350
Deposits	3,562,859	288,254
Local Agency Investment Funds	83,790	83,248
Total cash and cash equivalents	3,648,099	372,852
Investments - U.S. Treasuries debt securities	206,840	203,610
Total cash, cash equivalents, and investments	\$ 3,854,939	\$ 576,462

Plumas District Hospital

Notes to the Financial Statements

Note 3: Cash, Cash Equivalents, and Investments (Continued)

Investments

The District is a participant in the State of California Local Agency Investment Fund (LAIF), which is regulated by CGC Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based on the District's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF. The LAIF investment portfolio consists primarily of federal agency securities, certificates of deposit, loans to certain state funds, and time deposits.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits its investment portfolio to the Local Agency Investment Guidelines promulgated by the California Debt and Investment Advisory Commission. The District's current investment in U.S. Treasury debt securities matures on July 15, 2018.

Credit Risk - That risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized statistical rating organization. The District's current investment in U.S. Treasury debt securities has no credit risk. LAIF is not rated.

Concentration of Credit Risk - CGC limits the purchase of certain investments to defined percentages of the investment portfolio.

- Equity mutual fund investments may not exceed 20% of the total portfolio.
- At least 75% of equity investments must be U.S. equities; the remaining 25% may be international.
- At least 75% of equity investments must be large cap growth or value; the remaining 25% may be invested in small cap or mid cap.
- All equity investments are not to exceed 25% in any one mutual fund.

Custodial Credit Risk - For an investment, the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to the transaction, 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 investment policy does not limit the exposure to custodial credit risk for investments. All investments are held by the District's agent in the District's name and, therefore, are not exposed to custodial risk.

Note 4: Restricted Cash

Restricted cash required for debt obligations classified as current liabilities re reported in current assets. Assets held by trustees under indenture agreements consisted of \$296,139 and \$351,701 for the years ended June 30, 2017 and 2016, respectively.

Plumas District Hospital

Notes to the Financial Statements

Note 5: Patient Receivables

Patient receivables - Net consisted of the following at June 30:

	2017	2016
Patient receivables	\$ 8,190,560	\$ 8,382,232
Less:		
Contractual adjustments	3,306,302	3,663,791
Allowance for doubtful accounts	973,781	1,065,451
Patient receivables - Net	\$ 3,910,477	\$ 3,652,990

The District's allowance for doubtful accounts for self-pay patients decreased from 78% of self-pay accounts receivable at June 30, 2016, to 74% of self-pay accounts receivable at June 30, 2017. The District's self-pay write-offs increased by \$170,211 from \$388,354 for fiscal year 2016 to \$558,565 for fiscal year 2017. The District has not changed its charity care or uninsured discount policies during fiscal years 2017 or 2016. The District does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Note 6: Net Patient Service Revenue

Net patient service revenue consisted of the following for the years ended June 30:

	2017	2016
Gross patient service revenue:		
Inpatient services	\$ 6,191,592	\$ 7,014,817
Outpatient services	35,582,159	36,125,404
Swing beds	1,466,474	528,033
Total gross patient service revenue	43,240,225	43,668,254
Revenue reductions:		
Contractual allowances	16,916,917	24,648,737
Provision for bad debt	558,565	388,354
Total deductions	17,475,482	25,037,091
Net patient service revenue	\$ 25,764,743	\$ 18,631,163

Plumas District Hospital

Notes to the Financial Statements

Note 6: Net Patient Service Revenue (Continued)

The percentage of gross patient service revenue by payor source for the years ended June 30 follow:

	2017	2016
Medicare	45 %	46 %
Medi-Cal	27 %	27 %
Other third-party payors	27 %	25 %
Patients	1 %	2 %
Totals	100 %	100 %

Note 7: Charity Care

The District provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of the District, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided financial assistance based on criteria defined in the District's charity care policy and from applications completed by patients and their families.

The District maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the District's charity care policy aggregated approximately \$190,000 and \$464,000 for the years ended June 30, 2017 and 2016, respectively.

Plumas District Hospital

Notes to the Financial Statements

Note 8: Capital Assets

Capital assets consisted of the following at June 30, 2017:

	Balance July 1, 2016	Additions/ Transfers	Deletions	Balance June 30, 2017
Nondepreciable capital assets:				
Land	\$ 738,492	\$ -	\$ -	\$ 738,492
Construction in progress	1,584,936	488,986	58,636	2,015,286
Total nondepreciable capital assets	2,323,428	488,986	58,636	2,753,778
Depreciable capital assets:				
Land improvements	375,615	-	-	375,615
Buildings and fixed equipment	6,473,672	339,516	-	6,813,188
Equipment	9,306,174	114,569	535,916	8,884,827
Total depreciable capital assets	16,155,461	454,085	535,916	16,073,630
Accumulated depreciation:				
Land improvements	(275,644)	(16,243)	-	(291,887)
Buildings and fixed equipment	(4,903,545)	(277,268)	-	(5,180,813)
Equipment	(8,558,572)	(233,721)	(525,414)	(8,266,879)
Total accumulated depreciation	(13,737,761)	(527,232)	(525,414)	(13,739,579)
Total depreciable capital assets - Net	2,417,700	(73,147)	10,502	2,334,051
Capital assets - Net	\$ 4,741,128	\$ 415,839	\$ 69,138	\$ 5,087,829

Plumas District Hospital

Notes to the Financial Statements

Note 8: Capital Assets (Continued)

Capital assets consisted of the following at June 30, 2016:

	Balance July 1, 2015	Additions/ Transfers	Deletions	Balance June 30, 2016
Nondepreciable capital assets:				
Land	\$ 738,492	\$ -	\$ -	\$ 738,492
Construction in progress	1,524,149	134,458	73,671	1,584,936
Total nondepreciable capital assets	2,262,641	134,458	73,671	2,323,428
Depreciable capital assets:				
Land improvements	361,462	14,153	-	375,615
Buildings and fixed equipment	6,397,775	75,897	-	6,473,672
Equipment	9,238,715	227,446	159,987	9,306,174
Total depreciable capital assets	15,997,952	317,496	159,987	16,155,461
Accumulated depreciation:				
Land improvements	(274,290)	(1,354)	-	(275,644)
Buildings and fixed equipment	(4,880,423)	(23,122)	-	(4,903,545)
Equipment	(7,950,651)	(789,030)	(181,109)	(8,558,572)
Total accumulated depreciation	(13,105,364)	(813,506)	(181,109)	(13,737,761)
Total depreciable capital assets - Net	2,892,588	(496,010)	(21,122)	2,417,700
Capital assets - Net	\$ 5,155,229	\$ (361,552)	\$ 52,549	\$ 4,741,128

Plumas District Hospital

Notes to the Financial Statements

Note 9: Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consisted of the following at June 30:

	July 1, 2016	Additions	Reductions	June 30, 2017	Amounts Due Within One Year
Series A 2008 General Obligation Bonds	\$ 180,000	\$ -	\$ (180,000)	\$ -	\$ -
Series B 2016 General Obligation Bonds	-	1,200,000	-	1,200,000	232,000
Land Purchase Note	289,239	-	(289,239)	-	-
EMR Software Note	250,000	-	(250,000)	-	-
CHFFA HELP II Note	-	1,500,000	-	1,500,000	1,500,000
Toshiba Municipal Lease	-	1,179,750	(57,702)	1,122,048	219,195
Jules & Associates (Mammo) Lease	34,655	-	(34,655)	-	-
Jules & Associates (Olympus) Lease	129,890	-	(18,565)	111,325	30,050
Total long-term debt and capital lease obligations	\$ 883,784	\$ 3,879,750	\$ (830,161)	\$ 3,933,373	\$ 1,981,245

	July 1, 2015	Additions	Reductions	June 30, 2016	Amounts Due Within One Year
Series A 2008 General Obligation Bonds	\$ 355,000	\$ -	\$ (175,000)	\$ 180,000	\$ 180,000
Land Purchase Note	300,509	-	(11,270)	289,239	289,239
EMR Software Note	750,000	-	(500,000)	250,000	250,000
Jules & Associates (Mammo) Lease	62,508	-	(27,853)	34,655	34,655
Jules & Associates (Olympus) Lease	144,988	-	(15,098)	129,890	20,779
Total long-term debt and capital lease obligations	\$ 1,613,005	\$ -	\$ (729,221)	\$ 883,784	\$ 774,673

Scheduled principal and interest repayments on long-term debt and capital lease obligations as of June 30, 2017 are as follows:

	Long-Term Debt		Capital Lease Obligations		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 1,951,148	\$ 74,755	\$ 30,050	\$ 10,168	\$ 1,981,198	\$ 84,923
2019	462,963	46,914	31,794	7,164	494,757	54,078
2020	477,132	33,303	34,175	3,836	511,307	37,139
2021	490,670	16,757	15,306	532	505,976	17,289
2022	440,135	3,608	-	-	440,135	3,608
Totals	\$ 3,822,048	\$ 175,337	\$ 111,325	\$ 21,700	\$ 3,933,373	\$ 197,037

Plumas District Hospital

Notes to the Financial Statements

Note 9: Long-Term Debt and Capital Lease Obligations (Continued)

The terms and due dates of the District's long-term debt and capital lease obligations at June 30, 2017, follow:

Series A 2008 G.O. Bonds - \$3,200,000 in General Obligation Bonds, Election of 2008, Series A (the Series A 2008 G.O. Bonds), for the purpose of funding the planning, development, and design of additions and improvements to the healthcare facilities of the District. The Series A 2008 G.O. Bonds represent the general obligation of the District. The District has the power, and is obligated, to cause to be levied and collected by Plumas County annual ad valorem taxes upon all property within the District's boundaries subject to taxation by the District for payment, when due, of the principal and interest on the bonds. However, the District is legally required to repay the Series A 2008 G.O. Bonds if ad valorem taxes are insufficient. On February 1, 2011, the District redeemed \$2,300,000 of outstanding Series A 2008 G.O. Bonds. The amortization of all remaining Series A 2008 G.O. Bonds was modified to a period of five and one-half years resulting in a maturity date of August 2016. The interest rate for the remaining bonds was reduced to 3.37%. Mandatory sinking fund deposits to retire remaining bonds on their maturity dates are due annually commencing August 2011 through August 2016 in amounts ranging from \$50,000 to \$180,000. The Series A 2008 G.O. Bonds obligations were fulfilled as of June 30, 2017.

Series B 2016 G.O. Bonds - \$1,200,000 in General Obligation Bonds, Election of 2008, Series B 2016 (the Series B 2016 G.O. Bonds), for the purpose of raising money for the expansion, improvement, acquisition, construction, equipping, and renovation of health facilities of the District. Payable semi-annually with an interest rate of 1.6% to 2.11%. Mandatory sinking fund deposits to retire remaining bonds on their maturity dates are due annually commencing August 2017 through August 2021 in amounts ranging from \$232,000 to \$249,000.

Land Purchase Note - Payable in monthly installments of \$2,416, including interest at 6.00% through September 2016. A balloon payment of \$288,731 was due in September 2016. The note is secured by real property. Note was paid in full as of June 30, 2017.

EMR Software Note - Payable in semi-annual installments of interest only of 3.75% beginning July 2013. Annual payments of principal due annually beginning January 2015 and ending January 2017. Required debt service fund payments, which began on December 2012. Note was paid in full as of June 30, 2017.

CHFFA HELP II Note - Payable in monthly installments of interest only of 2% beginning September 2016. Principal due in balloon payment in December 2017. Secured by property tax revenue.

Toshiba Municipal Lease - Payable in monthly installments of principal and interest of 3.95% beginning March 2017 through March 2022. Secured by real property.

Jules & Associates (Mammo) Lease - Payable in quarterly installments of \$8,216 through September 2017. Secured by real property. Original lease terms were satisfied during fiscal year 2017 and the District is currently in negotiations relating to extending the lease.

Jules & Associates (Olympus) Lease - Payable in monthly installments of \$3,168 through December 2020. Secured by real property. Agreement provides for title of equipment to pass upon expiration of the lease periods.

Plumas District Hospital

Notes to the Financial Statements

Note 9: Long-Term Debt and Capital Lease Obligations (Continued)

Following is a summary of equipment under capital leases at June 30:

	2017	2016
Cost of equipment	\$ 334,344	\$ 334,344
Less - Accumulated depreciation	146,302	81,691
Capital lease equipment - Net	\$ 188,042	\$ 252,653

Note 10: Operating Leases

The District is committed under various lease and supply purchase agreements for the use of equipment. These leases are considered operating leases for accounting purposes. Lease expense amounted to \$57,429 and \$56,198 for the years ended June 30, 2017 and 2016, respectively.

Note 11: Line of Credit

On August 12, 2016, the District entered into an agreement with Plumas Bank to maintain a line of credit providing advances up to \$500,000. The line of credit is secured with the District's accounts receivable. Interest on the line of credit accrued on outstanding advances at an annual rate equal to the prime rate plus 2.00%. As of June 30, 2017, the rate was 6.25% and there were no advances on the line of credit.

Note 12: Retirement Plan

The District sponsors a defined contribution retirement plan covering substantially all of its full-time employees pursuant to Section 403(b) of the Internal Revenue Code. Employees are eligible to participate after they have attained the age of 21 and completed one year of full-time service. Participating employees may contribute 2.5% of their compensation, as defined under the plan. The District can make discretionary contributions to the plan. Employees become fully vested in the employer's contributions to their accounts after completion of three years of service. During 2017 and 2016, the District's contributions to the plan were \$223,737 and \$195,738, respectively.

Note 13: Commitments and Contingencies

Litigation

The District is involved in claims and other litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the District's future financial position or results from operations.

Plumas District Hospital

Notes to the Financial Statements

Note 13: Commitments and Contingencies (Continued)

Seismic Requirement

California Senate Bill 1953 (SB 1953) requires hospital acute care buildings to meet more stringent seismic guidelines. In fiscal year 2010, the District received approval of a time extension from the Office of Statewide Health Planning and Development for compliance with SB 1953 until January 1, 2030. The Board of Directors has approved an expansion plan, not to exceed \$20 million, which includes expanding and enhancing the emergency room to ensure access to lifesaving care, maintaining critical medical services including pediatrics, maternity, and upgrading facilities that are outdated or do not meet state-mandated earthquake safety standards. This plan will enable the District to comply with SB 1953 seismic guidelines. The financing for this expansion plan has multiple parts, including \$15.3 million of general obligation bonds to be repaid through ad valorem property taxes of the residents of the District, \$4.0 million in hospital borrowing, and \$700,000 in foundation contributions and grants.

Note 14: Risk Management

The District is exposed to various risks of loss related to medical malpractice; torts; theft of, damage to, and destruction of assets; errors and omissions; injuries of employees; and natural disasters. Commercial insurance coverage is purchased for claims arising from some of these matters. Settled claims have not exceeded commercial coverage in any of the three preceding years.

The District participates in a risk management authority for comprehensive liability self-insurance. The comprehensive liability insurance includes medical malpractice insurance coverage on a claims-made basis. A claims-made insurance policy represents a transfer of risk within the policy limits to the risk management authority for asserted claims and incidents reported to the risk management authority. A claims-made insurance policy does not represent a transfer of risk for claims and incidents not reported to the risk management authority during the policy period. Consequently, a healthcare organization insured under a claims-made policy recognizes the estimated cost of those claims and incidents not reported to the risk management authority as of the end of the reporting period. Management estimates that the cost of any claims and incidents not reported to the risk management authority as of June 30, 2017 and 2016, will not have a significant effect on the financial statements.

Joint Powers Agreement

The District participates in a joint "venture" under a joint powers agreement (JPA) with the BETA Healthcare Group Risk Management Authority (the Authority).

The Authority was formed for the purpose of operating a comprehensive liability self-insurance program for certain healthcare districts of the Association of California Healthcare Districts, Inc (ACHD). The Authority operates as a separate JPA established as a public agency separate and distinct from the ACHD. Each member hospital pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to its participation in the Authority. The District maintains coverage on a claims-made basis.

Plumas District Hospital

Notes to the Financial Statements

Note 14: Risk Management (Continued)

Self-Insurance

The District is self-insured to provide group medical, dental, and vision coverage. A third-party administers these coverages for the District. The District funds its losses based on actual claims. A stop-loss insurance contract executed with an insurance carrier provides a specific stop-loss deductible per covered person of \$80,000 with unlimited maximum specific benefit per covered person. The contract also provides an aggregate stop-loss deductible of \$1,579,473 with a maximum reimbursement of \$1,000,000 per policy period. There were no significant changes in insurance coverage from the prior year.

The District has estimated the incurred, but not reported liability as of June 30, 2017, using a historical average that is based on actual claims paid. The following represents changes to those liabilities during the past two years:

	Beginning Liability	Expense Accrual and Reserve Adjustments	Claim Payments and Fees	Ending Liability
2017	\$ 273,115	\$ 666,852	\$ (639,885)	\$ 300,082
2016	316,219	637,420	(680,524)	273,115

Note 15: Concentration of Credit Risk

Financial instruments that potentially subject the District to credit risk consist principally of patient accounts receivable. Patient accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medi-Cal) for health care provided to the patients. The majority of the District's patients are from Plumas County, California, and the surrounding area.

The mix of receivables from patients and third-party payors consisted of the following at June 30:

	2017	2016
Medicare	31 %	33 %
Medi-Cal	28 %	24 %
Other third-party payors	23 %	26 %
Patients	18 %	17 %
Totals	100 %	100 %

Plumas District Hospital

Notes to the Financial Statements

Note 16: Functional Expenses

The District provides general health care services to residents within its geographic location. Expenses (including interest expense) related to providing these services for the years ended June 30 are as follows:

	2017	2016
Health care services	\$ 16,263,428	\$ 15,302,437
Management and administrative	6,782,495	6,338,223
Total expenses	\$ 23,045,923	\$ 21,640,660

Note 17: Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 classifications.