

Plumas District Hospital

Quincy, California

Financial Statements and Supplementary Information

Years Ended June 30, 2019 and 2018

WIPFLI^{LLP}
CPAs and Consultants

Plumas District Hospital

Years Ended June 30, 2019 and 2018

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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 years ending June 30, 2019 and 2018, 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 audits. We conducted our audits 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, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

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 1, 2020
Spokane, Washington

Plumas District Hospital

Management's Discussion and Analysis

Year Ended June 30, 2019

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, 2019 and 2018. Please read it in conjunction with the District's financial statements, which begin on page 9.

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 16 licensed general acute care beds, 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, 2019, and had an annual payroll of \$11.6 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 comprised of the statements of net position; the statements of revenues, 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, 2019

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 revenues and expenses for the years ended June 30, 2019 and 2018, are accounted for in the statements of revenues, 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 \$4,217,330 in the past year from \$13,432,125 at June 30, 2018, to \$17,649,455 at June 30, 2019. In the prior year, the District's net position increased by \$3,541,473 from \$9,890,652 at June 30, 2017, to \$13,432,125 at June 30, 2018.
- Gross patient revenue increased 1.1% from \$42,726,962 in fiscal year 2018 to \$43,190,844 in fiscal year 2019. Revenue deductions decreased 12.6% in the past year from \$16,242,727 to \$14,192,902. Operating expenses increased 12.0% in the past year from \$24,137,369 to \$27,031,394 in fiscal year 2019.

Financial Analysis of the District

The statements of net position and the statements of revenues, 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, 2019

Financial Analysis of the District (Continued)

The following table presents a summary of the statements of net position for the years ended June 30, 2019, 2018, and 2017:

Condensed Statements of Net Position (In Thousands)

June 30,	2019	2018	2017	2019-2018		2018-2017	
				\$ Change	% Change	\$ Change	% Change
Current assets	\$ 15,775	\$ 12,503	\$ 12,534	\$ 3,272	26.17 %	\$ (31)	-0.25 %
Investments	-	-	207	-	- %	(207)	(100.00)%
Capital assets - Net	7,903	5,596	5,088	2,307	41.23 %	508	9.98 %
Total assets	\$ 23,678	\$ 18,099	\$ 17,829	\$ 5,579	30.82 %	\$ 270	1.51 %
Current liabilities	\$ 4,199	\$ 3,132	\$ 5,986	\$ 1,067	34.07 %	\$ (2,854)	(47.68)%
Noncurrent liabilities	1,830	1,535	1,952	295	19.22 %	(417)	-21.36 %
Total liabilities	6,029	4,667	7,938	1,362	29.18 %	(3,271)	-41.21 %
Net position:							
Net investment in capital assets	4,989	4,196	1,933	793	19 %	2,263	117.07 %
Restricted expendable net position	318	283	296	35	12.37 %	(13)	(4.39)%
Unrestricted	12,342	8,953	7,662	3,389	37.85 %	1,291	16.85 %
Total net position	17,649	13,432	9,891	4,217	31.40 %	3,541	35.80 %
Total liabilities and net position	\$ 23,678	\$ 18,099	\$ 17,829	\$ 5,579	30.82 %	\$ 270	1.51 %

The District's statements of net position reflect an increase that is caused mostly by receivables of supplemental and incentive payment revenue.

- Current assets increased by approximately \$3,272,000 in 2019 and decreased by \$31,000 in 2018. In turn, current liabilities increased by approximately \$1,067,000 in 2019 as the District injected working capital liquidity into operations.
- The increase in noncurrent liabilities of \$295,227 in 2019 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, 2019

Financial Analysis of the District (Continued)

The following table presents a summary of the statements of revenues, expenses, and changes in net position for the years ended June 30, 2019, 2018, and 2017:

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

	2019	2018	2017	2019-2018		2018-2017		
				\$ Change	% Change	\$ Change	% Change	
Operating revenue:								
Net patient service revenue	\$ 28,314	\$26,078	\$ 25,765	\$ 2,236	8.57 %	\$ 313	1.21 %	
Other operating revenue	2,139	949	208	1,190	125.40 %	741	356.25 %	
Total operating revenue	30,453	27,027	25,973	3,426	12.68 %	1,054	4.06 %	
Operating expenses:								
Salaries, wages, and benefits	13,813	12,923	11,812	890	6.89 %	1,111	9.41 %	
Professional fees and purchased services	8,149	7,198	6,965	951	13.21 %	233	3.35 %	
Supplies	2,225	1,740	1,845	485	27.87 %	(105)	-5.69 %	
Repairs and maintenance	483	274	304	209	76.28 %	(30)	-9.87 %	
Rents and leases	70	90	57	(20)	-22.22 %	33	57.89 %	
Utilities	372	361	345	11	3.05 %	16	4.64 %	
Insurance	275	253	264	22	8.70 %	(11)	-4.17 %	
Other	951	781	837	170	21.77 %	(56)	-6.69 %	
Depreciation	694	517	527	177	34.24 %	(10)	-1.90 %	
Total operating expenses	27,032	24,137	22,956	2,895	11.99 %	1,181	5.14 %	
Gain (loss) from operations	3,421	2,890	3,017	531	18.37 %	(127)	-4.21 %	
Nonoperating revenue - Net	796	651	664	145	22.27 %	(13)	-1.96 %	
Excess of revenue over expenses	4,217	3,541	3,681	676	19.09 %	(140)	-3.80 %	
Net position at beginning	13,432	9,891	6,210	3,541	35.80 %	3,681	59.28 %	
Net position at end	\$ 17,649	\$13,432	\$ 9,891	\$ 4,217	31.40 %	\$ 3,541	35.80 %	

Plumas District Hospital

Management's Discussion and Analysis (Continued)

Year Ended June 30, 2019

Financial Analysis of the District (Continued)

Net patient service revenue increased 8.6% in 2019. The increase was caused largely by decreased revenue deductions and allowances, specifically an increase in supplemental payments related to patient care.

Total operating expenses increased 12.0% compared to the previous year's increase of 5.1%. Major increases included:

- Salaries, wages, and benefit expenses increased by 6.9% due to wage increases and additional employees. The total number of full-time equivalent employees was 170 and 168, in 2019 and 2018, respectively.
- Professional fees and purchased services increased by 13.2% due to increased reliance on contracted RN and technician positions in addition to the use of third party resources in implementing a new electronic health record system.
- Other operating expenses increased by 21.7% due to shortage of RN staff and recruiting cost.

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, 2019

Capital Assets and Debt Administration

The District spent \$1,199,750 and \$920,237 on capital expenditures in 2019 and 2018, respectively. The majority of the expenditures were related to capital projects and equipment purchases.

The District incurred new long-term capital lease obligations of \$1,831,887 in 2019 and has outstanding long-term debt in the amount of \$2,914,085 and \$2,028,727 in 2019 and 2018, respectively. The District made payments toward reducing its long-term liabilities by \$946,529 and \$1,979,049 during 2019 and 2018, 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 Lake Road
Quincy, California 95971

Plumas District Hospital

Statements of Net Position

<i>June 30,</i>	2019	2018
Current assets:		
Cash and cash equivalents:		
Cash and cash equivalents	\$ 9,688,056	\$ 7,128,917
Restricted cash	318,366	282,770
Receivables:		
Patient - Net	4,252,881	3,460,053
Other	329,018	224,944
Prepays	102,343	107,145
Inventories	545,021	498,904
Due from third-party reimbursement programs	539,758	800,914
Total current assets	15,775,443	12,503,647
Noncurrent assets:		
Nondepreciable capital assets	4,694,549	2,876,051
Depreciable capital assets - Net	3,208,612	2,719,557
Total noncurrent assets	7,903,161	5,595,608
TOTAL ASSETS	\$ 23,678,604	\$ 18,099,255

Plumas District Hospital

Statements of Net Position (Continued)

<i>June 30,</i>	2019	2018
Current liabilities:		
Current portion of long-term debt	\$ 240,000	\$ 235,000
Current portion of capital lease obligations	843,941	258,810
Accounts payable	1,552,144	1,262,061
Accrued compensation and related liabilities	1,556,817	1,366,975
Accrued interest	6,103	9,367
Total current liabilities	4,199,005	3,132,213
Long-term liabilities:		
Long-term debt - Net of current portion	493,000	733,000
Obligations under capital leases - Net of current portion	1,337,144	801,917
Total long-term liabilities	1,830,144	1,534,917
Total liabilities	6,029,149	4,667,130
Net position:		
Net investment in capital assets	4,989,076	4,196,161
Restricted	318,366	282,770
Unrestricted	12,342,013	8,953,194
Total net position	17,649,455	13,432,125
TOTAL LIABILITIES AND NET POSITION	\$ 23,678,604	\$ 18,099,255

Plumas District Hospital

Statements of Revenues, Expenses, and Changes in Net Position

<i>Years Ended June 30,</i>	2019	2018
Operating revenue:		
Net patient service revenue	\$ 28,314,146	\$ 26,077,602
Other operating income	2,138,694	949,463
Total operating revenue	30,452,840	27,027,065
Operating expenses:		
Salaries and wages	11,602,488	10,801,467
Employee benefits	2,210,032	2,122,031
Professional fees	3,876,522	3,720,141
Supplies	2,224,568	1,739,640
Purchased services	4,272,111	3,477,962
Repairs and maintenance	482,590	274,024
Rents and leases	70,133	90,496
Utilities	372,413	360,526
Insurance	274,989	252,802
Other	951,294	781,448
Depreciation	694,254	516,832
Total operating expenses	27,031,394	24,137,369
Operating income	3,421,446	2,889,696
Nonoperating revenue (expenses):		
Property taxes	664,626	597,561
Interest income	28,037	8,543
Other income	212,394	178,935
Interest expense	(109,173)	(133,262)
Total other nonoperating revenue - Net	795,884	651,777
Excess of revenue over expenses	4,217,330	3,541,473
Net position - Beginning of year	13,432,125	9,890,652
Net position - End of year	\$ 17,649,455	\$ 13,432,125

Plumas District Hospital

Statements of Cash Flows

<i>Years Ended June 30,</i>	2019	2018
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 27,774,119	\$ 29,654,783
Receipts from other operating revenue	2,138,694	949,463
Payments to suppliers and contractors	(13,622,678)	(12,914,576)
Payments to employees	(12,237,667)	(12,006,780)
Net cash provided by operating activities	4,052,468	5,682,890
Cash flows from noncapital financing activities:		
Property taxes received for operating purposes	376,919	363,333
Grants and other support received	108,320	2,486
Net cash provided by noncapital financing activities	485,239	365,819
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(1,199,750)	(920,237)
Principal payments on long-term debt and capital lease obligations	(946,529)	(1,979,049)
Interest paid on long-term debt and capital lease obligations	(112,437)	(131,585)
Change in assets held by trustee	-	13,369
Property taxes received for debt repayment	287,707	234,228
Net cash used in capital and related financing activities	(1,971,009)	(2,783,274)
Cash flows provided by investing activities:		
Interest income	28,037	8,543
Sales of investments	-	206,840
Net cash provided by investing activities	28,037	215,383
Net increase in cash and cash equivalents	2,594,735	3,480,818
Cash and cash equivalents - Beginning of year	7,411,687	3,930,869
Cash and cash equivalents - End of year	\$ 10,006,422	\$ 7,411,687

Plumas District Hospital

Statements of Cash Flows (Continued)

<i>Years Ended June 30,</i>	2019	2018
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,421,446	\$ 2,889,696
Adjustments to reconcile operating income to net cash provided by activities:		
Depreciation	694,254	516,832
Provision for bad debts	683,796	406,633
Gain (loss) on disposal of property and equipment	29,830	(29,971)
Changes in operating assets and liabilities:		
Patient receivables - Net	(1,476,624)	43,791
Inventories	(46,117)	7,513
Prepays	4,802	19,322
Due from third-party reimbursement programs	261,156	3,197,604
Accounts payable	290,083	(1,377,452)
Accrued compensation and related liabilities	189,842	8,922
Total adjustments	631,022	2,793,194
Net cash provided by operating activities	\$ 4,052,468	\$ 5,682,890
Supplemental cash flow information:		
Assets acquired under capital lease obligations	\$ 1,831,887	\$ 74,403

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 economic resources measurement focus and 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 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 significant 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 and Cash Equivalents

The District considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

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, and obligations with first priority security; and collateralized mortgage obligations.

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.

Taxes Receivable

Taxes receivable, 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 net realizable value.

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, 2019 and 2018.

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 compensation and related liabilities on the statements of net position, totaled \$723,599 and \$629,750 as of June 30, 2019 and 2018, 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.

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 policy 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 2.1% and 2.2% of its financial support in 2019 and 2018, respectively, from property taxes to support operations. Ad valorem tax restricted to debt service on the 2008 general obligation bonds approximated 0.9% and 0.8% of total support in 2019 and 2018, 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 revenues, 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.

Subsequent Events

Subsequent events have been evaluated through April 1, 2020, which is the date the financial statements were available to be 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, 2018.

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, 2019, 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 and Cash Equivalents

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 for demand deposits and an additional \$250,000 for time deposits. 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, 2019 and 2018, the net carrying amounts of deposits were \$9,686,606 and \$7,127,467, respectively, and the bank balances were \$10,001,306 and \$8,079,617, respectively. Of the bank balances, \$250,000 each year was covered by federal deposit insurance and \$9,349,650 and \$7,329,617, 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:

	2019	2018
Cash and cash equivalents:		
Petty cash	\$ 1,450	\$ 1,450
Deposits	1,662,996	7,127,365
Local Agency Investment Funds	8,023,610	102
Total cash and cash equivalents	9,688,056	7,128,917
Restricted cash	318,366	282,770
Total cash and cash equivalents	\$ 10,006,422	\$ 7,411,687

Plumas District Hospital

Notes to the Financial Statements

Note 3: Cash and Cash Equivalents (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.

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 are reported in current assets. Assets held by trustees under indenture agreements consisted of \$318,366 and \$282,770 for the years ended June 30, 2019 and 2018, respectively.

Plumas District Hospital

Notes to the Financial Statements

Note 5: Patient Receivables

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

	2019	2018
Patient receivables	\$ 8,032,666	\$ 6,916,105
Less:		
Contractual adjustments	2,908,785	2,658,052
Allowance for doubtful accounts	871,000	798,000
Patient receivables - Net	\$ 4,252,881	\$ 3,460,053

The District's allowance for doubtful accounts for self-pay patients increased from 64% of self-pay accounts receivable at 2018, to 68% of self-pay accounts receivable at June 30, 2019. The District has not changed its charity care or uninsured discount policies during fiscal years 2019 or 2018. 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:

	2019	2018
Gross patient service revenue:		
Inpatient services	\$ 7,665,632	\$ 7,197,218
Outpatient services	32,863,564	33,753,372
Swing beds	2,661,648	1,776,372
Total gross patient service revenue	43,190,844	42,726,962
Revenue reductions:		
Contractual allowances	14,192,902	16,242,727
Provision for bad debt	683,796	406,633
Total deductions	14,876,698	16,649,360
Net patient service revenue	\$ 28,314,146	\$ 26,077,602

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:

	2019	2018
Medicare	46 %	46 %
Medi-Cal	25 %	25 %
Other third-party payors	28 %	28 %
Patients	1 %	1 %
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 \$143,000 and \$284,000 for the years ended June 30, 2019 and 2018, respectively.

Plumas District Hospital

Notes to the Financial Statements

Note 8: Capital Assets

Capital assets consisted of the following:

	Balance July 1, 2018	Additions	Transfers	Deletions/ Adjustments	Balance June 30, 2019
Nondepreciable capital assets:					
Land	\$ 738,492	\$ -	\$ -	\$ -	738,492
Construction in progress	2,137,559	2,956,835	(1,068,408)	(69,929)	3,956,057
Total nondepreciable capital assets	2,876,051	2,956,835	(1,068,408)	(69,929)	4,694,549
Depreciable capital assets:					
Land improvements	390,524	-	34,923	11,146	436,593
Buildings and fixed equipment	6,863,566	-	194,706	(2,262)	7,056,010
Equipment	9,691,905	144,731	838,779	(303,273)	10,372,142
Total depreciable capital assets	16,945,995	144,731	1,068,408	(294,389)	17,864,745
Accumulated depreciation:					
Land improvements	(309,211)	(18,503)	-	-	(327,714)
Buildings and fixed equipment	(5,420,228)	(240,541)	-	(4,057)	(5,664,826)
Equipment	(8,496,999)	(435,210)	-	268,616	(8,663,593)
Total accumulated depreciation	(14,226,438)	(694,254)	-	264,559	(14,656,133)
Total depreciable capital assets - Net	2,719,557	(549,523)	1,068,408	(29,830)	3,208,612
Capital assets - Net	\$ 5,595,608	\$ 2,407,312	\$ -	\$ (99,759)	\$ 7,903,161

Plumas District Hospital

Notes to the Financial Statements

Note 8: Capital Assets (Continued)

Capital assets consisted of the following:

	Balance July 1, 2017	Additions	Transfers	Deletions/ Adjustments	Balance June 30, 2018
Nondepreciable capital assets:					
Land	\$ 738,492	\$ -	\$ -	\$ -	\$ 738,492
Construction in progress	2,015,286	448,150	-	(325,877)	2,137,559
Total nondepreciable capital assets	2,753,778	448,150	-	(325,877)	2,876,051
Depreciable capital assets:					
Land improvements	375,615	14,909	-	-	390,524
Buildings and fixed equipment	6,813,188	50,378	-	-	6,863,566
Equipment	8,884,827	819,478	17,573	(29,973)	9,691,905
Total depreciable capital assets	16,073,630	884,765	17,573	(29,973)	16,945,995
Accumulated depreciation:					
Land improvements	(291,887)	(17,324)	-	-	(309,211)
Buildings and fixed equipment	(5,180,813)	(239,415)	-	-	(5,420,228)
Equipment	(8,266,879)	(260,093)	-	29,973	(8,496,999)
Total accumulated depreciation	(13,739,579)	(516,832)	-	29,973	(14,226,438)
Total depreciable capital assets - Net	2,334,051	367,933	17,573	-	2,719,557
Capital assets - Net	\$ 5,087,829	\$ 816,083	\$ 17,573	\$ (325,877)	\$ 5,595,608

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:

	July 1, 2018	Additions	Reductions	June 30, 2019	Amounts Due Within One Year
Series B 2016 General Obligation Bonds	\$ 968,000	\$ -	\$ (235,000)	\$ 733,000	\$ 240,000
Cerner Lease	-	1,611,345	(417,730)	1,193,615	518,384
Toshiba Municipal Lease	902,864	-	(228,002)	674,862	237,132
Jules & Associates (Olympus) Lease	83,460	-	(30,857)	52,603	34,175
Jules & Associates (Lis) Lease	74,403	-	(21,030)	53,373	14,253
GE VIVID Lease	-	77,306	(5,617)	71,689	14,035
GE LOGIQ Lease	-	143,236	(8,293)	134,943	25,962
Total long-term debt and capital lease obligations	\$ 2,028,727	\$ 1,831,887	\$ (946,529)	\$ 2,914,085	\$ 1,083,941

	July 1, 2017	Additions	Reductions	June 30, 2018	Amounts Due Within One Year
Series B 2016 General Obligation Bonds	\$ 1,200,000	\$ -	\$ (232,000)	\$ 968,000	\$ 235,000
CHFFA HELP II Note	1,500,000	-	(1,500,000)	-	-
Toshiba Municipal Lease	1,122,048	-	(219,184)	902,864	227,963
Jules & Associates (Olympus) Lease	111,325	-	(27,865)	83,460	30,847
Jules & Associates (Orchard Software) Lease	-	74,403	-	74,403	-
Total long-term debt and capital lease obligations	\$ 3,933,373	\$ 74,403	\$ (1,979,049)	\$ 2,028,727	\$ 493,810

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending June 30	Bonds and Notes Payable		
	Principal	Interest	Total
2020	\$ 240,000	\$ 10,886	\$ 250,886
2021	244,000	3,878	247,878
2022	249,000	438	249,438
Totals	\$ 733,000	\$ 15,202	\$ 748,202

Plumas District Hospital

Notes to the Financial Statements

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

Future capital lease payments are as follows:

<i>Year Ending June 30:</i>	Future Payments on Capital Lease Obligations
2020	\$ 920,912
2021	901,861
2022	402,474
2023	58,869
2024	31,134
Less: Amount attributable to interest	(134,165)
Total	\$ 2,181,085

The terms and due dates of the District's long-term debt and capital lease obligations at June 30, 2019, follow:

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.

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 (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.

Jules & Associates (LIS) Lease - Payable in monthly installments of \$2,412 through November 2022. Secured by real property. Agreement provides for title of equipment to pass upon expiration of the lease periods.

GE Vivid Lease - Payable in monthly installments of \$1,479 through February 2024. Secured by real property. Agreement provides for title of equipment to pass upon expiration of the lease periods.

GE Logiq Lease - Payable in monthly installments of \$2,737 through February 2024. Secured by real property. Agreement provides for title of equipment to pass upon expiration of the lease periods.

Cerner System Lease - Payable in monthly installments of \$46,123 through October 2021.

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:

	2019	2018
Cost of equipment	\$ 2,186,806	\$ 400,747
Less - Accumulated depreciation	48,273	146,302
Capital lease equipment - Net	\$ 2,138,533	\$ 254,445

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 \$70,133 and \$90,496 for the years ended June 30, 2019 and 2018, respectively.

Future payments on operating lease arrangements are as follows for the year ending June 30,

2020	\$ 20,497
2021	20,497
2022	20,497
Total	\$ 61,491

Note 11: Line of Credit

On August 12, 2017, 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, 2019, 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 2019 and 2018, the District's contributions to the plan were \$277,882 and \$245,348, respectively.

Plumas District Hospital

Notes to the Financial Statements

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.

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, 2019 and 2018, will not have a significant effect on the financial statements.

Plumas District Hospital

Notes to the Financial Statements

Note 14: Risk Management (Continued)

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.

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, 2019, 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
2019	\$ 250,337	\$ 4,116	- \$	254,453
2018	300,082	(49,745)	-	250,337

Plumas District Hospital

Notes to the Financial Statements

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:

	2019	2018
Medicare	32 %	32 %
Medi-Cal	26 %	18 %
Other third-party payors	25 %	30 %
Patients	17 %	20 %
Totals	100 %	100 %

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:

	2019	2018
Health care services	\$ 19,379,156	\$ 17,352,089
Management and administrative	7,761,411	6,918,542
Total expenses	\$ 27,140,567	\$ 24,270,631

Note 17: Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 classifications. The amounts of previously-reported net position were unchanged by these reclassifications.