

MENDOCINO COAST HOSPITAL FOUNDATION

FINANCIAL STATEMENTS

YEAR ENDED

DECEMBER 31, 2017



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MENDOCINO COAST HOSPITAL FOUNDATION

INFORMATION ABOUT THE ORGANIZATION

NAME OF ORGANIZATION	Mendocino Coast Hospital Foundation
ADDRESS	775 River Drive Fort Bragg, CA 95437
TELEPHONE	707 961-4671
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EXECUTIVE DIRECTOR	Michelle Roberts



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A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Mendocino Coast Hospital Foundation
Fort Bragg, CA

We have audited the accompanying financial statements of the Mendocino Coast Hospital Foundation (a California nonprofit corporation), which comprise the statements of financial position as of December 31, 2017, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Emphasis of a Matter

As discussed in Note 1 to the financial statements, as of December 31, 2017, the Foundation adopted Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs, and direction for consistency about information provided about expenses and investment return. The adoption of the standard resulted in additional footnote disclosures and changes to the classification of net assets. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mendocino Coast Hospital Foundation as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



Fort Bragg, California
July 5, 2018

**MENDOCINO COAST HOSPITAL FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017**

ASSETS

Current assets

Cash and cash equivalents	\$ 943,427	
Accounts receivable, net	205	
Prepaid expenses and other current assets	35,262	
Total current assets		\$ 978,894

Noncurrent assets

Property and equipment, net	565	
Investments	1,282,802	
Other noncurrent assets	69,698	
Total noncurrent assets		1,353,066

TOTAL ASSETS		\$ 2,331,960
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LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 1,725	
Accrued expenses	20,496	
Total current liabilities		\$ 22,221

TOTAL LIABILITIES		22,221
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Net assets

<i>Without donor restrictions</i>		
Undesignated	1,870,108	
Designated by the Board to sustaining fund	4,668	
Invested in property and equipment	565	
		1,875,341

<i>With donor restrictions</i>		
Purpose restrictions		434,397

TOTAL NET ASSETS		2,309,738
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TOTAL LIABILITIES AND NET ASSETS		\$ 2,331,960
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See accompanying notes and independent accountant's report.

MENDOCINO COAST HOSPITAL FOUNDATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUE, SUPPORT, AND GAINS			
Support:			
Gifts, grants, and contributions	\$ 197,111	\$ 273,274	\$ 470,386
In-kind contributions	103,904		103,904
Total support	<u>301,016</u>	<u>273,274</u>	<u>574,290</u>
Investment return:			
Interest and dividends	56,720	-	56,720
Realized gains or (losses), net	112,827	-	112,827
Unrealized gains (losses), net	37,672	-	37,672
Total investment return	<u>207,219</u>	<u>-</u>	<u>207,219</u>
Gross special events revenue	512,583	-	512,583
Net assets released from restrictions	<u>331,114</u>	<u>(331,114)</u>	<u>-</u>
Total revenue, support, and gains	<u>1,351,932</u>	<u>(57,840)</u>	<u>1,294,092</u>
EXPENSES			
Program services			
Donations to Hospital	589,659	-	589,659
Total program services	<u>589,659</u>	<u>-</u>	<u>589,659</u>
Supporting services			
Management and general	181,828	-	181,828
Fundraising and development			
Special events expenses	465,460	-	465,460
Total fundraising and development	<u>465,460</u>	<u>-</u>	<u>465,460</u>
Total supporting services	<u>647,288</u>	<u>-</u>	<u>647,288</u>
Total expenses	<u>1,236,948</u>	<u>-</u>	<u>1,236,948</u>
CHANGE IN NET ASSETS	114,984	(57,840)	57,145
NET ASSETS, beginning of the year	<u>1,760,357</u>	<u>492,237</u>	<u>2,252,594</u>
NET ASSETS - end of the year	<u>\$ 1,875,341</u>	<u>\$ 434,397</u>	<u>\$ 2,309,738</u>

See accompanying notes and independent accountant's report.

**MENDOCINO COAST HOSPITAL FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Services	Management and General	Fundraising and Development	Total
Grants and other assistance	\$ 584,284	\$ -	\$ -	\$ 584,284
Salaries and Wages	5,375	102,462	60,635	168,472
Pension plan contributions	-	4,947	-	4,947
Other employee benefits	-	8,283	9,205	17,488
Payroll taxes	-	10,067	5,025	15,092
Professional services	-	3,142	-	3,142
Bank and registration fees	-	2,052	15,058	17,109
Accounting fees	-	14,313	-	14,313
Advertising and promotion	-	40	10,410	10,450
Office expenses	-	3,168	-	3,168
Information technology	-	4,953	4,059	9,012
Occupancy	-	16,000	-	16,000
Travel	-	1,622	2,622	4,244
Conferences and meetings	-	3,170	588	3,758
Interest	-	-	-	-
Depreciation and amortization	-	141	-	141
Insurance	-	1,229	-	1,229
Postage and shipping	-	1,330	3,340	4,670
Printing and publications	-	1,375	15,553	16,928
Other expenses	-	3,112	-	3,112
Hospitality	-	423	-	423
Special events expenses	-	-	338,967	338,967
Total expenses by function	\$ 589,659	\$ 181,828	\$ 465,460	\$ 1,236,948

See accompanying notes and independent accountant's report.

**MENDOCINO COAST HOSPITAL FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017**

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$	57,145
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization		141
Net realized and unrealized (gain) loss on investments		(207,219)
Changes in operating assets and liabilities:		
Accounts receivable		(205)
Prepaid expenses and other current assets		(237)
Accounts payable		677
Accrued expenses		(4,813)
Net cash provided by (used in) operating activities		<u>\$ (154,512)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment		<u>-</u>
(Addition to) withdrawal from other investments		(7,569)
Purchases of investments		(38,193)
Proceeds from sales of investments		<u>273,692</u>
Net cash provided by (used in) investing activities		227,930
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings		<u>-</u>
Net cash provided by (used in) financing activities		<u>-</u>
Net increase (decrease) in cash and cash equivalents		73,418
Cash and cash equivalents, beginning of year		<u>870,009</u>
Cash and cash equivalents, end of year		<u><u>\$ 943,427</u></u>
<i>Supplemental disclosure of cash flow information:</i>		
Cash paid for:		
Interest	\$	-
Taxes	\$	10
Noncash transactions:		
Office Rent	\$	16,000
In-kind donations	\$	87,904

See accompanying notes and independent accountant's report.

MENDOCINO COAST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

ORGANIZATION AND NATURE OF ACTIVITIES

The Mendocino Coast Hospital Foundation (the Foundation) is a nonprofit public benefit corporation formed in August 1984 for the charitable purpose of providing the Mendocino Coast District Hospital (the District) financial aid for patient services and funds allowing it to acquire, replace and upgrade its facilities and equipment. Winesong, an annual wine tasting and auction event, is the primary fundraising event produced by the Foundation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The financial statements of the Mendocino Coast Hospital Foundation have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, methods used to allocate costs, and direction for consistency about information provided about expenses and investment return. Mendocino Coast Hospital Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly.

Cash and Cash Equivalents

The Foundation considers cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments for purposes of the statement of cash flows exclude restricted cash and cash equivalents.

Property and Equipment

The Foundation records property and equipment additions over \$1,000 at cost, or if donated, at fair value on the date of donation.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from five to fifteen years, or in the case of capitalized leased assets or leasehold improvements, the lesser or the useful life of the asset or the lease term. The assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

MENDOCINO COAST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The Foundation records investment purchases at cost, or if donated, at fair value on the date of donation. After that, investments are reported at their fair values in the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions

Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a sustaining fund.

Net Assets With Donor Restrictions

Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-kind Contributions

Volunteers contribute significant amounts of time in supporting Mendocino Coast Hospital Foundation 's activities. However, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Foundation records donated professional services at the respective fair values of the services received.

MENDOCINO COAST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

Advertising costs are expensed as incurred and approximated \$10,450 for the year ended December 31, 2017.

Functional Allocation of Expenses

The costs of program and supporting have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

Mendocino Coast Hospital Foundation is organized as a California nonprofit public benefit corporation and have been recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as organizations described in IRC Section 501(c)(3), qualify for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi), and have been determined not to be private foundations under IRC Sections 509(a)(1) and (3), respectively. The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS.

In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Foundation has evaluated uncertain tax positions and related disclosures in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10-50-15. Management does not believe that any material uncertain tax positions exist. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Foundation has determined that it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and gains, and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Financial Instruments and Credit Risk

Financial instruments that potentially subject Mendocino Coast Hospital Foundation to concentrations of credit risk consist of cash deposits and investments. Cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per banking institution.

MENDOCINO COAST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Foundation maintains investments at Edward Jones Investment Company. Investments are subject to a formal investment policy, which provides for diversification and oversight. Balances in investment accounts are insured up to \$500,000, including a limit of \$250,000 for cash, by the Securities Investor Protection Corporation (SIPC). Edward Jones purchases additional protection from Underwriters at Lloyd's.

Although these investments are exposed to numerous risks, including interest rate fluctuation, market volatility, and credit risks, management believes that the investment policy and guidelines are prudent for the long-term welfare of the Foundation. Due to the level of risk associated with certain investments, changes in fair values of the investments could occur, which would materially affect the Foundation's financial statements and future financial position.

At December 31, 2017, Mendocino Coast Hospital Foundation had uninsured cash balances of approximately \$342,102.

NOTE 2. LIQUIDITY AND AVAILABILITY

As part of Mendocino Coast Hospital Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet six months of normal operating expenses. This period of time was established based on management's review of the typical revenue and expense life cycle. Mendocino Coast Hospital Foundation invests cash in excess of daily requirements in short-term and highly liquid investments in accordance with its Allocation and Investment Policy.

Operating liquidity comes from fees, grants, donations, interest, and dividends from investments. Operating funds are maintained in a checking account and used as needed.

Grant funding liquidity is provided through holding net assets with donor restrictions in a segregated restricted fund account.

In the event of an unanticipated liquidity need, Mendocino Coast Hospital Foundation's Board of Directors may authorize the withdrawal of funds from the board designated sustaining fund. Additionally, The Foundation maintains a non-revolving line of credit with Edward Jones Investment Company. This line of credit is based on and collateralized by Mendocino Coast Hospital Foundation's investment accounts.

The table below present Mendocino Coast Hospital Foundation's financial assets available for general expenditures within one year of the statement of financial position date:

**MENDOCINO COAST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 2. LIQUIDITY AND AVAILABILITY (CONTINUED)

Financial assets at December 31, 2017:	
Cash and cash equivalents	\$943,425
Accounts receivable	205
Investments	1,282,802
Total financial assets	<u>2,226,432</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>434,397</u>
Financial assets available to meet general expenditures within one year	<u>\$1,792,035</u>

Although the Foundation does not intend to spend from the board-designated sustaining fund, these amounts could be made available if necessary.

NOTE 3. PREPAID EXPENSES

Prepaid expenses consist of the following at December 31, 2017:

A production contract for 2018 Winesong deposit	\$31,500
Storage rent	2,715
Insurance	569
Membership	478
	<u>\$35,262</u>

NOTE 4. PROPERTY AND EQUIPMENT

Mendocino Coast Hospital Foundation's property and equipment at December 31, 2017 consist of the following:

Office equipment	\$26,489
Furniture and Fixtures	<u>8,778</u>
Less accumulated depreciation and amortization	<u>(34,702)</u>
	<u>\$565</u>

Depreciation and amortization expense for the year ended December 31, 2017, totaled \$141.

MENDOCINO COAST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 5. FAIR VALUE MEASUREMENTS AND INVESTMENTS

Mendocino Coast Hospital Foundation reports certain assets at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that we can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, we develop inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to management's assessment of the quality, risk, or liquidity profile of the asset or liability.

The following table presents investments measured at fair value on a recurring basis, except those measured at cost, at December 31, 2017:

**MENDOCINO COAST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 5. FAIR VALUE MEASUREMENTS AND INVESTMENTS (CONTINUED)

Description	Cost Basis	Fair Market Value at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$6,771	\$6,771	\$-	\$-
Common stock	63,573	82,539		
Mutual fund investments	926,787	1,193,492		
	<u>\$997,131</u>	<u>\$1,282,802</u>	<u>\$-</u>	<u>\$-</u>

NOTE 6. OTHER ASSET - MENDOCINO COAST MEDICAL PLAZA, LLC

In 2003 the Foundation purchased an interest in a Limited Liability Company which has developed a medical office building in Fort Bragg, CA. The Foundation is a 10.53% owner of this entity. The investment cost as of December 31, 2017, is \$69,698.

Level 3 measurements determine the fair value for investment in Mendocino Coast Medical Plaza, LLC. To minimize the use of unobservable inputs that are significant to the fair value measurement, the Foundation carries the investment in Mendocino Coast Medical Plaza, LLC at cost.

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as of December 31, 2017, for the following purposes:

Name of Fund	Balance
Obstetrics	\$6,836
Ambulance Fund	143,445
Gloria Fredrickson Nurses Fund	3,618
Cox Cancer Care Fund	42,159
Chaplaincy Program	8,633
Patient Refurb Project	229,706
	<u>\$434,397</u>

**MENDOCINO COAST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 7. NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

The Foundation reserved cash and investments in the amount of \$434,397 as of December 31, 2017. These assets are limited as to use for purposes specifically designated by donors of the Foundation to support the programs and services of the District.

At December 31, 2017, Mendocino Coast Hospital Foundation does not have net assets with donor-imposed restrictions that are perpetual in nature.

NOTE 8. BOARD DESIGNATED NET ASSETS

During 2017 the Board of Directors authorized a transfer of \$4,668 to a sustaining fund account. Since this is not a donor-imposed restriction, the designated assets are classified and reported as part of net assets without donor restrictions. The total board designated net assets at December 31, 2017, is \$4,668.

NOTE 9. LINE OF CREDIT

Mendocino Coast Hospital Foundation maintained a non-revolving line of credit with Edward Jones Investment Company. This line of credit is based on and collateralized by the Foundation's investment accounts. At December 31, 2017, \$638,782 of credit was approved at 4% interest rate. There were no borrowings during 2017 on this credit facility.

NOTE 10. RELATED PARTY

The Foundation has a close association with the Mendocino Coast District Hospital which operates the local hospital. The District provides office space to the Foundation at no cost under an informal agreement. The fair market value of this donation is properly recorded in the statement of activities under other income and the related expense. The amount recorded for the year ended December 31, 2017, was \$16,000.

In addition, the Directors and fixed assets of the Foundation are covered under insurance policies carried by the District. It would be impracticable to estimate the cost savings of this donation and would be immaterial to the financial statements taken as a whole, therefore it is not recorded in the financial statements.

During the year ended December 31, 2017, the Foundation made payments in the amount of \$584,284 to the Mendocino Coast District Hospital as pass-through donations and funds raised during Winesong event.

MENDOCINO COAST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 11. FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits and payroll taxes, which are allocated on the basis of estimates of time and effort.

Mendocino Coast Hospital Foundation classifies its expenses based on the following functional expense categories:

Program - Contributions and grants awarded to Mendocino Coast District Hospital

Management & General - Supporting activities that are not identifiable with one or more program or fundraising activity, such as expenses for board, committee or staff meetings; accounting; insurance; office management and administration, and human resources.

Fundraising - Special events, campaigns, annual appeals, marketing, donor development, and stewardship.

NOTE 12. NONCASH DONATIONS

During the year ended December 31, 2017, the Foundation received the following noncash donations of materials, services, and free use of facilities that have been reflected in the statement of activities:

Use of facilities - office	\$16,000
Marketable securities	21,406
Lodging	21,048
Food and beverages	21,194
Advertising	6,454
Supplies	8,820
Auction event trades	8,982
	<hr/>
	\$103,904

NOTE 13. RETIREMENT BENEFITS

Mendocino Coast Hospital Foundation has established a retirement savings plan under Section 403(b) of the U.S. Internal Revenue Code (the 403(b) Plan). The 403(b) Plan covers employees of the organization who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pre-tax basis. Employer contributions are discretionary and are determined and authorized by the Board of Directors each plan year. The Foundation's contribution to the 403(b) plan for the year ended December 31, 2017, amounted to \$4,947.

**MENDOCINO COAST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

NOTE 14. FUNDRAISING ACTIVITIES - WINESONG

The Foundation hosts various special events throughout the year. A weekend fundraising event produced once a year called Winesong, which includes wine tasting and an auction, comprise a significant portion of Mendocino Coast Hospital Foundation's revenues.

For the year ended December 31, 2017, Winesong generated fundraising revenues as follows:

Ticket sales	\$99,120
Auction revenue	381,721
Product sales	2,330
Advertising sales	3,600
Registration fees	2,870
	\$489,641

Additionally, \$30,275 was contributed by donors and sponsors of the event, in-kind donations of \$63,498 and donations of \$194,134 to Fund-A- Need lots as included in the total of Gift, grants, and contributions on the statement of activities.

The following table presents details of direct expenses of Winesong event:

Bank fees and registrations	\$14,913
Advertising	10,410
Information technology	4,059
Travel	2,622
Conferences and meetings	588
Postage and shipping	3,340
Printing and publications	15,346
Rent and facility costs	\$31,089
Hospitality	4,321
In-kind lodging and event items	30,950
Outside contract services	86,882
Auction trip expense	38,801
Equipment rental and maintenance	73,932
Purchases and supplies	59,521
	\$376,774

Also, the Foundation attributes direct payroll and employee benefits expenses of \$67,954 to coordinate the Winesong event.

MENDOCINO COAST HOSPITAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

NOTE 15. CONTINGENCIES AND GUARANTEES

At the end of December 31, 2017, Mendocino Coast Hospital Foundation has guaranteed payments on various contracts in the amount of \$82,950 with various suppliers and consultants for 2018 Winesong event.

The contract with Mendocino Coast Botanical Gardens for a venue use is a three-year agreement with an expectation of renewing the contract twice for an additional two years through the year 2023. The usage fee is \$20,000 each year with annual review for unforeseen changes and cost increases. Mendocino Coast Hospital Foundation will not be liable for any venue use fee if inclement weather forces the events to an alternate indoor location, except for actual cost incurred by Mendocino Coast Botanical Gardens in the preparation of the event.

NOTE 16. RECENT ACCOUNTING GUIDANCE

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires the organization to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, as well as other disclosures.

On June 21, 2018, the FASB issued ASU 2018-08, Clarifying the Scope of the Accounting for Contributions Received and Contributions Made. The standard is intended to address questions stemming from FASB ASU 2014-09, Revenue from Contracts with Customers, regarding its implication on grants and contracts of not-for-profit organizations. Specifically, it includes decision trees to assist in evaluating a transaction if a new revenue standard would apply or it more appropriately classifies as a contribution, which would exclude it from the scope of ASU 2017-09 and instead require the application of contribution guidance. Standards will be effective for annual reporting periods beginning after December 15, 2018. Management is evaluating the effect of the amended revenue recognition guidance on Mendocino Coast Hospital Foundation's financial statements.

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NOTE 16. RECENT ACCOUNTING GUIDANCE (CONTINUED)

Leases

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). Under ASU 2016-02, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-to-use asset representing its right to use the underlying asset for the lease term. The amendments of this ASU are effective for reporting periods beginning after December 15, 2018. The organization will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Management is currently assessing the impact the adoption of ASU 2016-02 will have on its financial statements and disclosures.

NOTE 17. MANAGEMENT REVIEW OF SUBSEQUENT EVENTS

Management has evaluated events that have occurred subsequent to the financial statement date through July 3, 2018, the date the financial statements were available to be issued. There were no subsequent material events that required recognition or additional disclosure in the statements.