

Last Frontier Healthcare District

Alturas, California

Financial Statements

Years Ended June 30, 2017 and 2016

WIPFLI^{LLP}
CPAs and Consultants

Last Frontier Healthcare District

Years Ended June 30, 2017 and 2016

Table of Contents

Independent Auditor's Report.....1

Financial Statements

- Statements of Net Position.....3
- Statements of Revenue, Expenses, and Changes in Net Position.....5
- Statements of Cash Flows.....6
- Notes to Financial Statements.....8



Independent Auditor's Report

Board of Directors
Last Frontier Healthcare District
Alturas, California

Report on the Financial Statements

We have audited the accompanying financial statements of Last Frontier Healthcare District (the "District"), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Last Frontier Healthcare District, as of June 30, 2017 and 2016, and the respective changes in financial position and its cash flows thereof, for the years then ended in accordance with accounting principles generally accepted in the United States.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Wipfli LLP

Wipfli LLP

3/14/2018

Spokane, Washington

Last Frontier Healthcare District

Statements of Net Position

<i>June 30,</i>	2017	2016
Current assets:		
Cash and cash equivalents	\$ 14,880,348	\$ 10,983,971
Receivables:		
Patient and resident - Net	1,965,311	1,663,606
Other	357,168	342,569
Prepays	218,236	201,392
Inventories	280,460	190,399
Due from third-party reimbursement programs	2,294,756	2,687,520
Total current assets	19,996,279	16,069,457
Restricted cash and cash equivalents by donors	1,024,431	1,016,510
Noncurrent assets:		
Nondepreciable capital assets	1,387,949	1,051,375
Depreciable capital assets - Net	2,420,534	2,653,359
Noncurrent assets - Net	3,808,483	3,704,734
TOTAL ASSETS	\$ 24,829,193	\$ 20,790,701

Last Frontier Healthcare District

Statements of Net Position (Continued)

<i>June 30,</i>	2017	2016
Current liabilities:		
Accounts payable	\$ 908,430	\$ 684,474
Accrued compensation and related liabilities	271,690	243,135
Accrued compensated absences	203,344	191,451
Resident trust accounts	10,888	8,750
Total current liabilities	1,394,352	1,127,810
Net position:		
Net investment in capital assets	3,808,483	3,704,734
Restricted by donors	1,024,431	1,016,510
Unrestricted	18,601,927	14,941,647
Total net position	23,434,841	19,662,891
TOTAL LIABILITIES AND NET POSITION	\$ 24,829,193	\$ 20,790,701

Last Frontier Healthcare District

Statements of Revenue, Expenses, and Changes in Net Position

<i>Years Ended June 30,</i>	2017	2016
Revenue:		
Net patient and resident service revenue	\$ 17,961,978	\$ 15,812,455
Other revenue	240,968	250,137
Total revenue	18,202,946	16,062,592
Expenses:		
Salaries	6,236,243	5,748,621
Benefits	2,014,579	1,920,079
Professional fees	4,145,432	2,980,260
Supplies	1,377,115	1,538,033
Purchased services	1,061,613	1,621,397
Depreciation	733,297	733,006
Other expenses	1,423,859	1,303,137
Total expenses	16,992,138	15,844,533
Income from operations	1,210,808	218,059
Nonoperating revenue (expenses):		
Property tax revenue	2,375,648	2,365,957
Investment income	102,705	30,233
Noncapital grants and contributions	97,810	2,519,093
Gain on sale of assets	2,500	3,434
Interest expense	(15,064)	(13,096)
Other expenses	(2,457)	(2,362)
Total nonoperating revenue - Net	2,561,142	4,903,259
Excess of revenue over expenses	3,771,950	5,121,318
Net position at beginning	19,662,891	14,541,573
Net position at end	\$ 23,434,841	\$ 19,662,891

Last Frontier Healthcare District

Statements of Cash Flows

<i>Years Ended June 30,</i>	2017	2016
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Cash recieved from and on behalf of patients and third-party payors	\$ 18,038,446	\$ 15,130,696
Receipts from other operating revenue	240,968	250,137
Payments to employees for salaries and benefits	(8,225,033)	(7,569,493)
Payments to suppliers, contractors, and others	(7,874,179)	(7,107,831)
Net cash provided by operating activities	2,180,202	703,509
Cash flows from noncapital financing activities:		
Cash recieved from poperty tax revenue	2,375,648	2,365,957
Other nonoperating revenue	95,353	2,516,731
Interest payments	(15,064)	(13,096)
Net cash provided by (used in) noncapital financing activities	2,455,937	4,869,592
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(837,046)	(2,132,956)
Proceeds from sale of capital assets	2,500	6,601
Net cash used in capital and related financing activities	(834,546)	(2,126,355)
Cash flows from investing activities:		
Interest received	102,705	30,233
Increase in assets limited as to use	(7,921)	(1,016,510)
Net cash provided by (used in) investing activities	94,784	(986,277)
Net increase in cash and cash equivalents	3,896,377	2,460,469
Cash and cash equivalents at beginning	10,983,971	8,523,502
Cash and cash equivalents at end	\$ 14,880,348	\$ 10,983,971

Last Frontier Healthcare District

Statements of Cash Flows (Continued)

<i>Years Ended June 30,</i>	2017	2016
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 1,210,808	\$ 218,059
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	733,297	733,006
Provision for bad debt	784,419	534,238
Changes in operating assets and liabilities:		
Patient and resident receivables	(1,100,723)	(1,058,038)
Prepays	(16,844)	45,370
Inventories	(90,061)	(15,437)
Due from third-party reimbursement programs	392,764	(157,959)
Accounts payable	223,956	304,761
Accrued salaries, wages, and benefits	40,448	99,207
Resident trust accounts	2,138	302
Total adjustments	969,394	485,450
Net cash provided by operating activities	\$ 2,180,202	\$ 703,509

Last Frontier Healthcare District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

The Entity

Last Frontier Healthcare District (the “District”) is a special health care district that is an agency of the State of California (as set forth in the California Government Code) and is operated and governed by an elected Board of Directors. The District was organized for the purpose of operating Modoc Medical Center, which includes a 16-bed acute care facility that provides inpatient, outpatient, and emergency care services; a rural health clinic; and a 71-bed skilled nursing facility in Alturas, California.

The accompanying financial statements present the activities of the District. Accounting principles generally accepted in the United States (GAAP) require that these financial statements include the primary government and its component units. Component units are separate organizations that are included in the District’s reporting entity because of the significance of their operational or financial relationships with the District. All significant activities and organizations with which the District exercises oversight responsibility have been considered for inclusion in the financial statements. The District has no component units and is not included in any other governmental reporting entity.

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

Method of Accounting

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

Basis of Presentation

The financial statements have been prepared in accordance with GAAP as prescribed by Governmental Accounting Standards Board (GASB).

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

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

Last Frontier Healthcare District

Notes to 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, excluding assets limited as to use.

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

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

Patient and Residents Accounts Receivable and Credit Policy

Patient and resident 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' or residents behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary payor is billed, and patients are billed for copay and deductible amounts that are the patient's or residents responsibility. Payments on patient and resident receivables 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.

The carrying amounts of patient and resident receivables are reduced by allowances that reflect management's 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 and resident receivables. In addition, management provides for probable uncollectible amounts, primarily from uninsured patients and residents and amounts patients and residents are personally responsible for, through a reduction of gross revenue and a credit to the allowance for uncollectible accounts based on its assessment of historical collection likelihood and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible accounts and a credit to patient and resident receivables.

Last Frontier Healthcare District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Tax Receivables

Tax receivables, which are recorded in other receivables on the accompanying statements of net position, are amounts due from Modoc County (the "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.

Inventory

Inventory is valued at the lower of cost, determined using the first-in, first-out (FIFO) method, or market.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents includes certain cash and other assets whose use is limited by donors.

Capital Assets and Depreciation

Capital assets are recorded at cost if purchased or fair value at date received if contributed or net book value if transferred from a related party. The District maintains a threshold level of a unit or group cost of \$5,000 or more for capitalizing capital assets. Maintenance and repair costs are charged to expense as incurred. Gain or loss on disposition of capital assets is reflected in nonoperating gains or losses. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method over the useful life of each asset. Estimated useful lives are 40 years for buildings, range from 3 to 25 years for land and building improvements, and from 5 to 20 years for software and equipment.

Asset 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 upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are reported in the statements of revenue, expenses, and changes in net position. There were no impairment losses recorded in the years ended June 30, 2017 and 2016.

Last Frontier Healthcare District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Compensated Absences

The District has a paid leave time system for all paid time-off from work. The District employees earn vacation benefits at varying rates depending on years of service. Paid time-off accumulates up to specified maximum levels. Accumulated vacation benefits are paid to an employee upon either termination or retirement. Vacation accrual is included in the accrued salaries, wages, and benefits in the accompanying statements of net position.

Net Position

For government-wide and proprietary fund reporting net position is reported in three categories.

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

Restricted by donors: 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 and Resident Service Revenue

Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Electronic Health Record Incentive Funding

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medi-Cal programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health records (EHR) technology. These provisions of ARRA, collectively referred to as the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

Last Frontier Healthcare District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Electronic Health Record Incentive Funding (Continued)

The District recognizes revenue for EHR incentive payments when there is reasonable assurance that the District will meet the conditions of the program, primarily demonstrating meaningful use of certified EHR technology for the applicable period. The demonstration of meaningful use is based on meeting a series of objectives. Meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by the Centers for Medicare and Medicaid Services (CMS).

Amounts recognized under the Medicare and Medi-Cal EHR incentive programs are based on management's estimates. Management uses EHR incentive program guidelines to calculate the estimates, which may include cost report data that is subject to audit by fiscal intermediaries.

Accordingly, amounts recognized are subject to change. In addition, the District's attestation of its compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

The District incurs both capital expenditures and operating expenses in connection with the implementation of its EHR initiative. The amount and timing of these expenditures does not directly correlate with the timing of the District's receipt or recognition of the EHR incentive payments.

Charity Care

The District provides health care services to patients and residents 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.

Operating Revenue and Expenses

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

District Property Tax Revenue

The District has the authority to impose taxes on property within the boundaries of the health care district. Taxes are received from the County, which bills and collects the taxes for the District. Taxes are payable in two installments due December 10 and April 10 of each calendar year.

Last Frontier Healthcare District

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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 for 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).

Advertising Costs

Advertising costs are expensed as incurred.

Tax Status

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

Unemployment Compensation

The District is a part of a pooled unemployment insurance group through California Association of Hospital and Healthcare Systems (CAHHS) for unemployment insurance and does pay state unemployment tax.

Subsequent Events

Subsequent events have been evaluated through March 14, 2018, which is the date the financial statements were available to be issued.

Last Frontier Healthcare District

Notes to Financial Statements

Note 2: Reimbursement Arrangements With Third-Party Payors

The District has agreements with third-party payers 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 payers follows:

Hospital

Medicare - The Medicare program has designated the District as a critical access hospital (CAH) for Medicare reimbursement purposes. Under this designation, District 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 - Services provided to beneficiaries of both Medi-Cal HMO and traditional Medi-Cal are grouped as Medi-Cal. Medi-Cal HMO comprises the majority of business that is done by the District within the Medi-Cal payor classification. Under CAH designation, District inpatient and swing-bed services rendered to Medi-Cal program beneficiaries are paid based on a predetermined rate per day. The reimbursement for outpatient services is based on a fee schedule. The District also applies for and receives supplemental reimbursement for its outpatient services. The supplemental reimbursement is based on a cost-reimbursement methodology and is applicable for services provided to traditional Medi-Cal and Medi-Cal HMO beneficiaries.

Nursing Facility

Medicare - The Medicare program pays the skilled nursing facility (SNF) for Part A services based on a predetermined rate per resident day, which varies depending on a resident's level of care and the types of services provided.

Medi-Cal - Long-term care services are reimbursed at a daily rate that is adjusted annually. The District applies for and receives supplemental reimbursement for its distinct part nursing facility services provided to Medi-Cal HMO beneficiaries and any traditional Medi-Cal beneficiaries. The supplemental reimbursement is based on a cost-reimbursement methodology.

Physician and Professional Services in Rural Health Clinics (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.

Last Frontier Healthcare District

Notes to Financial Statements

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

Accounting for Contractual Arrangements

The District is reimbursed for certain cost-reimbursable items at an interim rate, with final settlements 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 cost reports for the District have been audited by Medicare and Medi-Cal through 2015.

Medi-Cal EHR Incentive Program Funding

The District received funding from Medi-Cal under the eligible hospital EHR Incentive Program. The funding period for the Medi-Cal EHR Incentive Program is based on eligible hospitals submitting applications to the Medi-Cal EHR Incentive Program prior to each federal fiscal year ending September 30. Medi-Cal determined that the District was entitled to approximately \$75,918 in funding in 2017 and 2016, and the District has recognized this amount in other operating revenue in the accompanying statements of revenue, expenses, and changes in net position.

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in substantial compliance with applicable government laws and regulations. While no significant regulatory inquiries have been made of the District, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

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

Last Frontier Healthcare District

Notes to Financial Statements

Note 3: Cash, Cash Equivalents, and Investments

Deposits

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits and investments may not be returned. The District does not have a deposit policy for custodial credit risk.

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

At June 30, 2017 and 2016, the net carrying amounts of deposits were \$3,077,924 and \$5,375,944, respectively, and the bank balances were \$3,129,037 and \$5,448,319, respectively. Of the bank balances, \$250,000 each year was covered by federal deposit insurance and \$2,879,037 and \$5,198,319, respectively, was collateralized in accordance with the requirements discussed in the previous paragraph.

Investment in LAIF

The District is a participant in the Local Agency Investment Fund (LAIF) which is regulated by California Government Code 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 upon the District's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. The LAIF investment is not subject to the fair value hierarchy disclosures.

The District's cash and cash equivalents as of June 30 consisted of the following:

	2017	2016
Bank deposits	\$ 3,077,924	\$ 5,375,944
Local Agency Investment Fund	11,790,061	5,598,302
Resident trust accounts	10,888	8,750
Petty cash	1,475	975
Total cash and cash equivalents	\$ 14,880,348	\$ 10,983,971

Last Frontier Healthcare District

Notes to Financial Statements

Note 4: Patient and Resident Accounts Receivable

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

	2017	2016
Patient and resident accounts receivable	\$ 4,419,703	\$ 4,410,189
Less:		
Contractual adjustments	1,591,636	2,012,583
Allowance for doubtful accounts	862,756	734,000
Patient and resident accounts receivable - Net	\$ 1,965,311	\$ 1,663,606

Note 5: Net Patient and Resident Service Revenue

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

	2017	2016
Gross patient and resident service revenue:		
Hospital inpatient services	\$ 2,653,470	\$ 2,667,465
Hospital outpatient services	17,312,649	16,506,443
Nursing home services	4,077,510	4,532,291
Clinic services	2,156,050	1,780,890
Total gross patient and resident service revenue	26,199,679	25,487,089
Revenue reductions:		
Contractual allowances	7,453,282	9,140,396
Provision for bad debt	784,419	534,238
Total revenue deductions	8,237,701	9,674,634
Net patient and resident service revenue	\$ 17,961,978	\$ 15,812,455

Last Frontier Healthcare District

Notes to Financial Statements

Note 5: Net Patient and Resident Service Revenue (Continued)

Approximately 38% and 41% of gross patient service revenue is from participation in the Medicare and Medi-Cal programs, respectively, for the year ended June 30, 2017. Approximately 36% and 45% of gross patient service revenue is from participation in the Medicare and Medi-Cal programs, respectively, for the year ended June 30, 2016.

Assembly Bill 915

California's Assembly Bill 915 (AB-915) was signed into law in 2002, providing for the payment of a supplemental reimbursement to acute care hospitals owned by certain public entities that provide outpatient services to Medi-Cal program beneficiaries. The District recorded \$876,389 and \$793,348 in AB-915 funds for the years ended June 30, 2017 and 2016, respectively. Because the revenue generated is based on services provided to patients, it is classified as net patient and resident service revenue in the accompanying statements of revenue, expenses, and changes in net position.

Note 6: 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 District's mission, 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 care based on qualifying criteria as 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 was \$13,675 and \$31,457 for the years ended June 30, 2017 and 2016, respectively.

Last Frontier Healthcare District

Notes to Financial Statements

Note 7: Capital Assets

Capital assets activity for the years ended June 30 were as follows:

	Balance July 1, 2016	Additions	Deletions/ Transfers	Balance June 30, 2017
Nondepreciable capital assets:				
Land	\$ 461,096	\$ -	\$ -	\$ 461,096
Construction in progress	590,279	336,574	-	926,853
Total nondepreciable capital assets	1,051,375	336,574	-	1,387,949
Depreciable capital assets:				
Land improvements	262,655	-	-	262,655
Buildings and improvements	3,982,586	39,135	-	4,021,721
Equipment	5,383,894	448,098	-	5,831,992
Software	1,571,193	13,239	-	1,584,432
Total depreciable capital assets	11,200,328	500,472	-	11,700,800
Total capital assets before depreciation	12,251,703	837,046	-	13,088,749
Accumulated depreciation:				
Land improvements	(51,383)	(17,910)	-	(69,293)
Buildings and improvements	(3,328,424)	(153,462)	-	(3,481,886)
Equipment	(3,810,372)	(442,717)	-	(4,253,089)
Software	(1,356,790)	(119,208)	-	(1,475,998)
Total accumulated depreciation	(8,546,969)	(733,297)	-	(9,280,266)
Depreciable capital assets - Net	2,653,359	(232,825)	-	2,420,534
Capital assets - Net	\$ 3,704,734	\$ 103,749	\$ -	\$ 3,808,483

Last Frontier Healthcare District

Notes to Financial Statements

Note 7: Capital Assets (Continued)

Capital assets consisted of the following at June 30:

	Balance July 1, 2015	Additions	Deletions/ Transfers	Balance June 30, 2016
Nondepreciable capital assets:				
Land	\$ 376,960	\$ 84,136	\$ -	\$ 461,096
Construction in progress	141,128	449,151	-	590,279
Total nondepreciable capital assets	518,088	533,287	-	1,051,375
Depreciable capital assets:				
Land improvements	262,648	7	-	262,655
Buildings and improvements	3,424,469	563,194	(5,077)	3,982,586
Major movable equipment	4,539,607	844,287	-	5,383,894
Software	1,379,012	192,181	-	1,571,193
Total depreciable capital assets	9,605,736	1,599,669	(5,077)	11,200,328
Total capital assets before depreciation	10,123,824	2,132,956	(5,077)	12,251,703
Accumulated depreciation:				
Land improvements	(33,473)	(17,910)	-	(51,383)
Buildings and improvements	(3,258,764)	(71,570)	1,910	(3,328,424)
Equipment	(3,461,719)	(348,653)	-	(3,810,372)
Software	(1,061,917)	(294,873)	-	(1,356,790)
Total accumulated depreciation	(7,815,873)	(733,006)	1,910	(8,546,969)
Depreciable capital assets - Net	1,789,863	866,663	(3,167)	2,653,359
Capital assets - Net	\$ 2,307,951	\$ 1,399,950	\$ (3,167)	\$ 3,704,734

At June 30, 2017 and 2016, construction in progress consisted primarily of various building improvement projects to the District's acute care and emergency facilities.

Last Frontier Healthcare District

Notes to Financial Statements

Note 8: 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 \$11,347 and \$10,283 for the years ended June 30, 2017 and 2016, respectively.

Note 9: Retirement Plan

The District sponsors and administers the Principal Financial 457(b) retirement plan. The defined contribution plan covers substantially all of its employees who are classified as permanent part-time or full-time employees or work more than 1,000 hours per year. Permanent part-time and full-time employees are eligible to participate in the retirement plan on their first day of employment. Employees that work as extra employees or per diem employees are eligible to participate in the plan only if they work more than 1,000 hours per year. The District contributes 3% of each eligible employee's base wage each pay period and matches up to an additional 3% of their base wage. The District's match percentage is set at 50% of each employee's elective deferral percentage up to a maximum match of 3% of their base wage after a year of eligible service.

The 457(b) plan is funded by employer contributions and employee elective deferrals. Employee elective deferral amounts are immediately 100% vested. The plan provides for employer contributions as outlined above that are allocated on the basis of eligible compensation per the retirement plan documents. Benefit terms, including employer contributions, are established by Management and the Board of Directors. Eligible participants employed for five years or more are 100% vested in their employer contributions. Eligible participants employed for less than five years are subject to a five-year graded vesting schedule at the rate of 20% starting the first year, 40% the second year, 60% the third year, 80% the fourth year and 100% the fifth year. Forfeitures are used to reduce future employer contributions. For the plan years ended December 31, 2017 and 2016, forfeitures reduced the District's retirement expense by more than \$20,000 each year. Retirement expense for the years ended December 31, 2017 and 2016, was approximately \$400,000 for both years.

Note 10: Risk Management

The District purchases commercial malpractice liability insurance on an occurrence basis. The policy coverage is \$5,000,000 per occurrence, with a \$5,000 deductible. There is an aggregate limitation of \$15,000,000. The District accrues the deductible for all open claims. There were no settlements in excess of insurance coverage in any of the three prior fiscal years.

The District participates in these plans through a premium-based arrangement that consists of annual amounts not subject to adjustment for adverse claims. Insurance premium expense for the years ended June 30, 2017 and 2016, was \$84,438 and \$85,872, respectively.

Last Frontier Healthcare District

Notes to Financial Statements

Note 11: Concentration of Credit Risk

Financial instruments that potentially subject the District to credit risk consist principally of patient and resident receivables.

Patient and resident receivables consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medi-Cal programs) for health care provided to the patients. The majority of the District's patients are from Modoc County, California, and the surrounding area. The mix of receivables from patients, residents, and third-party payors was as follows at June 30:

	2017	2016
Medicare	26 %	23 %
Medi-Cal	31 %	40 %
Other third-party payors	14 %	14 %
Patients	29 %	23 %
Totals	100 %	100 %

Note 12: Functional Expenses

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

	2017	2016
Health care services	\$ 15,866,354	\$ 14,723,935
Management and administrative	1,125,784	1,120,598
Total expenses	\$ 16,992,138	\$ 15,844,533

Last Frontier Healthcare District

Notes to Financial Statements

Note 13: Commitments and Contingencies

Seismic Requirement

In 1994, the state of California enacted Senate Bill 1953 as an unfunded mandate for all acute care medical facilities to meet strict structural requirements in order to remain open during a severe seismic event. The District's survey revealed that the main building required replacement; however, at this time, the SNF and the RHC do not need to meet this requirement. Senate Bill 306, *Health and Safety Code Section 130061.5*, authorized the granting of extensions for city and county hospitals or for certain hospitals that meet strict financial hardship until January 1, 2020. Facilities approved for the extension must comply with several criteria in order to maintain their eligibility.

A prospective replacement hospital site was selected, and the District entered into an option purchase agreement to acquire 29.4 acres of land for the purchase price of \$221,000. This option was exercised on April 8, 2014.

The District applied for an extension under Senate Bill 90 that allows additional time to comply with the seismic requirements for hospital buildings. This extension was granted to the District and the new deadline to complete the new facility project is January 1, 2030.

Since receiving the additional extension noted above, the District has been actively working towards constructing a new hospital facility that will meet California's seismic requirements. The District has obtained financing from the USDA to help cover much of the expense of building the new hospital. In addition the District has engaged a project management firm, a design-build firm, and is currently in the process of finalizing the construction documents for the new facility project. The new facility project is anticipated to be completed by the end of 2020 and should be ready to occupy after it is licensed in early 2021.