

# Last Frontier Healthcare District

Financial Statements and Supplementary  
Information

Years Ended June 30, 2020 and 2019



**WIPFLI**

# Last Frontier Healthcare District

Years Ended June 30, 2020 and 2019

---

## Table of Contents

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	4
Financial Statements	
Statements of Net Position.....	10
Statements of Revenues, Expenses, and Changes in Net Position.....	12
Statements of Cash Flows.....	13
Notes to Financial Statements.....	15
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	31
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance.....	33
Schedule of Expenditures of Federal Awards.....	35
Notes to Schedule of Expenditures of Federal Awards.....	36
Schedule of Findings and Questioned Costs.....	37
Schedule of Prior-Year Findings and Questioned Costs.....	39

## **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, 2020 and 2019, 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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, 2020 and 2019, 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.

## **Other Matters**

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 4 through 9 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.

### ***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and notes to the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis, and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards and the notes to the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2021, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

*Wipfli LLP*

Wipfli LLP

April 26, 2021  
Spokane, Washington

# Last Frontier Healthcare District

## Management's Discussion and Analysis

*Years Ended June 30, 2020, 2019, and 2018*

---

### Introduction

Last Frontier Healthcare District (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, 2020 and 2019. Readers can review the audited financial statements and accompanying notes to the financial statements to enhance their understanding of the District's financial performance.

The District is a municipal corporation that operates a critical access hospital, a distinct-part skilled nursing facility, a hospital-based rural health clinic, an ambulance service, and a retail pharmacy. The District is licensed for 16 hospital beds and 71 long-term care beds. The hospital services include 24-hour emergency care, general surgery, physical therapy, diagnostic laboratory and radiology, outpatient IV infusion, general acute care, and swing bed services. The District serves a large geographic region that is roughly 35 miles in all directions and has a population of approximately 3,500 people.

The District is designated as a critical access hospital (CAH). CAH status has had and continues to have a favorable impact on the District's finances inasmuch as CAH Medicare and Medi-Cal reimbursements are cost-based and therefore typically higher than what the District would otherwise receive under prospective payment system (PPS) reimbursement methodology. The District receives property tax revenue on assessed property within the District's boundaries to support operations. During the years ended June 30, 2020 and 2019, the District received property tax revenue of \$2,229,027 and \$2,264,556, respectively.

The District is governed by an elected six-member Board of Directors. Day-to-day operations are managed by the Chief Executive Officer. The District employed 225 employees on June 30, 2020, and had an annual payroll of approximately \$8.6 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 comprise the statements of net position; revenues, expenses, and changes in net position; and 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.

# Last Frontier Healthcare District

## Management's Discussion and Analysis (Continued)

*Years Ended June 30, 2020, 2019, and 2018*

---

### Required Financial Statements

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

All of the revenue and expenses for the years ended June 30, 2020 and 2019, 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 and resident 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 different period.

The final required statements are the statements of cash flows, which report cash receipts, cash payments, and net changes in cash resulting from operating, 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 Executive Overview

The District's financial performance exceeded administration's expectations as of the fiscal year ended June 30, 2020, resulting in an excess of revenue over expenses of \$10,723,962. The gain was driven largely by favorable supplemental and incentive program revenue, which had a positive effect on net patient service revenue.

- The District's income from operations was \$7,341,970 in 2020, \$4,486,203 in 2019, and \$1,924,555 in 2018.
- During 2020, 2019, and 2018, excess of revenue over expenses totaled \$10,723,962, \$7,075,300, and \$4,988,472, respectively.

# Last Frontier Healthcare District

## Management's Discussion and Analysis (Continued)

Years Ended June 30, 2020, 2019, and 2018

### 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.

#### Condensed Statements of Net Position (In Thousands)

June 30,	2020	2019	2018	Change	
				2020-2019	2019-2018
Current assets	\$ 42,953	\$ 22,393	\$ 21,677	\$ 20,560	\$ 716
Capital assets - Net	44,394	17,535	2,086	26,859	15,449
Noncurrent assets	1,081	1,060	6,298	21	(5,238)
<b>Total assets</b>	<b>\$ 88,428</b>	<b>\$ 40,988</b>	<b>\$ 30,061</b>	<b>\$ 47,440</b>	<b>\$ 10,927</b>
Current liabilities	\$ 10,925	\$ 5,489	\$ 1,638	\$ 5,436	\$ 3,851
Noncurrent liabilities	31,281	-	-	31,281	-
<b>Total liabilities</b>	<b>42,206</b>	<b>5,489</b>	<b>1,638</b>	<b>36,717</b>	<b>3,851</b>
Net position:					
Net investment in capital assets	16,264	18,595	7,350	(2,331)	11,245
Restricted	1,082	1,059	1,034	23	25
Unrestricted	28,876	15,845	20,039	13,031	(4,194)
<b>Total net position</b>	<b>46,222</b>	<b>35,499</b>	<b>28,423</b>	<b>10,723</b>	<b>7,076</b>
<b>Total liabilities and net position</b>	<b>\$ 88,428</b>	<b>\$ 40,988</b>	<b>\$ 30,061</b>	<b>\$ 47,440</b>	<b>\$ 10,927</b>

The District's net position reflects an increase, as discussed below:

- Current assets increased by approximately \$20,560,000 in 2020 and by \$716,000 in 2019. The increase in current assets in 2020 corresponds directly to the increase in cash and cash equivalents, as outlined in the statements of cash flows.
- Noncurrent assets consist of restricted cash and cash equivalents and capital assets. Total capital assets increased by \$26,859,070 in 2020 due to significant construction in progress additions.



# Last Frontier Healthcare District

## Management's Discussion and Analysis (Continued)

Years Ended June 30, 2020, 2019, and 2018

### 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, 2020, 2019, and 2018:

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

Years Ended June 30,	2020	2019	2018	Change	
				2020-2019	2019-2018
Revenue:					
Net patient and resident service revenue	\$ 30,094	\$ 24,040	\$ 19,938	\$ 6,054	\$ 4,102
Other revenue	2,966	2,313	1,426	653	887
<b>Total revenue</b>	<b>33,060</b>	<b>26,353</b>	<b>21,364</b>	<b>6,707</b>	<b>4,989</b>
Expenses:					
Salaries	8,585	6,877	6,252	1,708	625
Benefits	2,837	2,367	2,071	470	296
Professional fees	6,051	5,641	5,175	410	466
Supplies	4,498	3,832	2,712	666	1,120
Purchased services	1,297	1,040	1,053	257	(13)
Depreciation	505	531	601	(26)	(70)
Other expenses	1,946	1,578	1,576	368	2
<b>Total expenses</b>	<b>25,719</b>	<b>21,866</b>	<b>19,440</b>	<b>3,853</b>	<b>2,426</b>
Income from operations	7,341	4,487	1,924	2,854	2,563
Nonoperating revenue - Net	3,382	2,589	3,064	793	(475)
Excess of revenue over expenses	10,723	7,076	4,988	3,647	2,088
Net position at beginning of year	35,499	28,423	23,435	7,076	4,988
<b>Net position at end of year</b>	<b>\$ 46,222</b>	<b>\$ 35,499</b>	<b>\$ 28,423</b>	<b>\$ 10,723</b>	<b>\$ 7,076</b>

# Last Frontier Healthcare District

## Management's Discussion and Analysis (Continued)

*Years Ended June 30, 2020, 2019, and 2018*

---

### Financial Analysis of the District (Continued)

Net patient service revenue increased by 25.2% in 2020. The increase was caused largely by growth that the District experienced in both inpatient and outpatient services, including increases in acute inpatient days, skilled nursing facility days, clinic visits, laboratory tests, radiology exams, and observation days. In addition, the District has been successful in obtaining more net patient service revenue through its participation in the Public Hospital Redesign and Incentives in Medi-Cal (PRIME) program. These payments are made based on the District's performance on a set of quality metrics pertaining to its clinic performance.

Nonoperating revenue also increased by 30.6% in 2020. This was caused largely by an increase in interest income compared to 2019 as well as net revenue from the retail pharmacy, which operated at a gain of roughly \$123,700 in 2020 .

Salaries and benefits increased in 2020 by 23.6% because of rate increases from the District's health insurance provider, annual raises and minimum wage increases, and increased full-time equivalents (FTEs) to accommodate an increase in volumes and a management agreement with the Canby Clinic. The total number of FTEs was 182.90, 150.80, and 132.93 in 2020, 2019, and 2018, respectively.

Total operating expenses increased 17.6% from 2019 to 2020, compared with a 12.5% increase in the previous year from 2018 to 2019. Professional fees saw a slight increase from 2019 to 2020. This was caused mostly by staffing shortages and the use of traveler/registry staffing to meet the required clinical staff coverage ratios needed to continue to provide healthcare services. Traveler/registry staff was used in the laboratory and radiology departments, the skilled nursing facility, and the emergency room and regular hospital inpatient floor. In addition to these expenses, the District experienced increases in the fees related to physician coverage in the clinic and hospital that are also categorized as professional fees on the financial statements.

### 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 healthcare 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.
- **Primary Care Physician Shortage:** The entire nation is facing an extreme shortage in primary care physicians who are available to see patients. This issue will continue to worsen as our population ages and demand for these services continues to grow.

# Last Frontier Healthcare District

## Management's Discussion and Analysis (Continued)

*Years Ended June 30, 2020, 2019, and 2018*

---

### Financial Analysis of the District (Continued)

#### Items Affecting Operations (Continued)

- Labor: Nursing and some technician positions continue to be difficult to recruit and retain, especially to the remote location of the District.

In summary, multiple external factors continue to challenge small rural hospitals, with continuing declines in reimbursement, shortages of key clinical staff, increases in uncompensated care, and ongoing labor and health insurance issues. Consequently, the District and its employees are actively working to improve their clinical care and service to their patients and community while striving to improve their overall fiscal performance.

### 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:

Modoc Medical Center  
PO Box 190  
Alturas, CA 96101  
530-708-8801

# Last Frontier Healthcare District

## Statements of Net Position

<i>June 30,</i>	2020	2019
Current assets:		
Cash and cash equivalents	\$ 37,749,838	\$ 17,618,115
Receivables:		
Patient and resident accounts - Net	2,715,062	2,438,764
Other accounts receivable	554,057	478,531
Third-party payor settlements	1,309,824	1,218,706
Inventories	409,208	438,136
Prepaid expenses	214,735	200,686
<b>Total current assets</b>	<b>42,952,724</b>	<b>22,392,938</b>
Noncurrent assets:		
Restricted cash and cash equivalents	1,081,653	1,059,417
Nondepreciable capital assets	42,577,509	15,511,689
Depreciable capital assets - Net	1,816,823	2,023,573
<b>Noncurrent assets - Net</b>	<b>45,475,985</b>	<b>18,594,679</b>
<b>TOTAL ASSETS</b>	<b>\$ 88,428,709</b>	<b>\$ 40,987,617</b>

# Last Frontier Healthcare District

## Statements of Net Position (Continued)

<i>June 30,</i>	2020	2019
Current liabilities:		
Current portion of long-term debt	\$ 2,273,415	\$ -
Current portion of refundable advance	188,084	-
Accounts payable	3,518,333	4,840,442
Accrued salaries, payroll taxes, and benefits	922,265	648,559
Accrued interest	399,488	-
Unearned revenue	3,623,167	-
Total current liabilities	10,924,752	5,489,001
Noncurrent liabilities:		
Long-term debt, less current portion	29,212,454	-
Refundable advance, less current portion	2,068,925	-
Total noncurrent liabilities	31,281,379	-
Net position:		
Net investment in capital assets	16,263,531	18,594,679
Restricted	1,081,653	1,059,417
Unrestricted	28,877,394	15,844,520
Total net position	46,222,578	35,498,616
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 88,428,709</b>	<b>\$ 40,987,617</b>

See accompanying notes to financial statements.

# Last Frontier Healthcare District

## Statements of Revenues, Expenses, and Changes in Net Position

<i>Years Ended June 30,</i>	2020	2019
Revenue:		
Net patient and resident service revenue	\$ 30,094,335	\$ 24,040,482
Other revenue	2,966,136	2,312,568
Total revenue	33,060,471	26,353,050
Expenses:		
Salaries	8,584,551	6,876,994
Benefits	2,836,835	2,366,984
Professional fees	6,051,374	5,641,445
Supplies	4,497,614	3,832,398
Purchased services	1,296,562	1,039,799
Depreciation	505,186	531,147
Other expenses	1,946,379	1,578,080
Total expenses	25,718,501	21,866,847
Income from operations	7,341,970	4,486,203
Nonoperating revenue (expenses):		
Property tax revenue	2,229,027	2,264,556
Investment income	560,284	337,465
Noncapital grants and contributions	620,243	6,500
Interest expense	(25,263)	(17,106)
Other expenses	(2,299)	(2,318)
Total nonoperating revenue - Net	3,381,992	2,589,097
Excess of revenue over expenses	10,723,962	7,075,300
Net position at beginning of year	35,498,616	28,423,316
Net position at end of year	\$ 46,222,578	\$ 35,498,616

See accompanying notes to financial statements.

# Last Frontier Healthcare District

## Statements of Cash Flows

<i>Years Ended June 30,</i>	2020	2019
Increase in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from and on behalf of patients and third-party payors	\$ 29,726,919	\$ 24,108,513
Receipts from other operating revenue	5,147,619	322,203
Payments to employees for salaries and benefits	(10,748,192)	(9,079,302)
Payments to suppliers, contractors, and others	(15,099,159)	(6,423,029)
Net cash provided by operating activities	9,027,187	8,928,385
Cash flows from noncapital financing activities:		
Cash received from property tax revenue	2,229,027	2,264,556
Cash received from grants and stimulus funding	4,241,111	4,186
Proceeds from Paycheck Protection Program loan	1,793,493	-
Net cash provided by noncapital financing activities	8,263,631	2,268,742
Cash flows from capital and related financing activities:		
Interest paid on debt	(25,263)	(17,106)
Purchase of capital assets	(27,364,256)	(10,716,563)
Proceeds from issuance of long-term debt	29,692,376	-
Net cash provided by (used in) capital and related financing activities	2,302,857	(10,733,669)
Cash flows from investing activities - Interest received	560,284	337,465
Net increase in cash and cash equivalents	20,153,959	800,923
Cash and cash equivalents at beginning of year	18,677,532	17,876,609
Cash and cash equivalents at end of year	\$ 38,831,491	\$ 18,677,532

# Last Frontier Healthcare District

## Statements of Cash Flows (Continued)

<i>Years Ended June 30,</i>	2020	2019
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	\$ 7,341,970	\$ 4,486,203
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	505,186	531,147
Provision for bad debts	953,041	922,866
Changes in assets and liabilities:		
Patient and resident accounts receivable	(1,229,339)	(1,519,431)
Other accounts receivable	(75,526)	-
Third-party payor settlements	(91,118)	664,592
Inventories	28,928	(56,067)
Prepaid expenses	(14,049)	47,607
Accounts payable	(1,322,109)	3,686,868
Accrued salaries, payroll taxes, and benefits	673,194	164,600
Refundable advance	2,257,009	-
Total adjustments	1,685,217	4,442,182
Net cash provided by operating activities	\$ 9,027,187	\$ 8,928,385

See accompanying notes to financial statements.



# 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 healthcare 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 the District exercises oversight responsibility for 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 economic resources measurement focus and 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 which require more significant judgments and include the valuation of accounts receivable, including contractual allowances and an allowance for doubtful accounts; the estimated lost-revenue calculation used, in part, to determine the amount of federal assistance recognized in revenue; 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 and resident 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 or resident is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary payor is billed, and patients or residents are billed for copay and deductible amounts that are the patients' 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 for 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)

#### **Taxes Receivable**

Taxes receivable, which are recorded in other receivables on the accompanying statements of net position, are amounts due from Modoc County (the "County"). 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 net realizable value.

#### **Restricted Cash and Cash Equivalents**

Restricted cash and cash equivalents include certain cash whose use is limited by donors or lenders.

#### **Capital Assets and Depreciation**

Capital assets are recorded at cost if purchased or fair value at the 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 range from 5 to 20 years for software and equipment.

#### **Compensated Absences**

The District has a paid leave time system for all paid time off from work. The District's employees earn vacation benefits at varying rates depending on years of service. Paid time off accumulates up to specified maximum levels. Accumulated unused vacation benefits are paid to an employee upon either termination or retirement. Vacation accrual is included in accrued salaries, payroll taxes, 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 inflows of resources that are attributable to the construction, acquisition, or improvement of those assets or the related debt are also included in this category.

# Last Frontier Healthcare District

## Notes to Financial Statements

---

### **Note 1: Summary of Significant Accounting Policies** (Continued)

#### **Net Position** (Continued)

*Restricted:* This category consists of noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the facility.

*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 and residents, 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.

#### **Charity Care**

The District provides healthcare 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 revenues, expenses, and changes in net position distinguish between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare 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 healthcare 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 healthcare district. Taxes are received from the County, which bills and collects the taxes for the District. Taxes are due from those within the region on 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.

#### **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 April 26, 2021, which is the date the financial statements were available to be issued.

### **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 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.

# Last Frontier Healthcare District

## Notes to Financial Statements

---

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

#### **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 (RHC)**

Certain physician and professional services rendered to Medicare and Medi-Cal beneficiaries qualify for reimbursement as Medicare-approved RHC 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, 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 final settled by Medicare and Medi-Cal through 2018.

#### **Medi-Cal Electronic Health Records (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 the District was entitled to approximately \$75,918 in funding in 2019, and the District has recognized this amount in other operating revenue in the accompanying statements of revenues, expenses, and changes in net position.

# Last Frontier Healthcare District

## Notes to Financial Statements

---

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

#### **Compliance**

The healthcare 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 healthcare 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 healthcare providers has increased. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes 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.

The Centers for Medicare and Medicaid Services (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 healthcare 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, 2020, the District had not been notified by the RAC of any potential significant reimbursement adjustments.

### **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, 2020 and 2019, the District had bank balances of \$1,877,536 and \$1,739,342, respectively. Of these balances, \$500,000 were covered by federal deposit insurance each year, and \$1,627,536 and \$1,489,342, respectively, were collateralized (i.e., with securities held by the pledging financial institutions of at least 110% of the District's cash deposits, in accordance with the California Government Code).

# Last Frontier Healthcare District

## Notes to Financial Statements

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

#### 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 and is not registered as an investment company with the U.S. Securities and Exchange Commission.

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

	2020	2019
Current cash and cash equivalents:		
Bank deposits	\$ 3,098,965	\$ 2,939,927
LAIF	34,642,831	14,670,561
Resident trust accounts	6,567	6,152
Petty cash	1,475	1,475
<b>Total current cash and cash equivalents</b>	<b>37,749,838</b>	<b>17,618,115</b>
<b>Noncurrent cash and cash equivalents - Restricted</b>	<b>1,081,653</b>	<b>1,059,417</b>
<b>Total cash and cash equivalents</b>	<b>\$ 38,831,491</b>	<b>\$ 18,677,532</b>

### Note 4: Patient and Resident Accounts Receivable

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

	2020	2019
Patient and resident accounts receivable	\$ 6,193,754	\$ 5,673,805
Less:		
Contractual adjustments	2,157,795	2,308,199
Allowance for doubtful accounts	1,320,897	926,842
<b>Patient and resident accounts receivable - Net</b>	<b>\$ 2,715,062</b>	<b>\$ 2,438,764</b>



# Last Frontier Healthcare District

## Notes to Financial Statements

### Note 5: Net Patient and Resident Service Revenue

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

	2020	2019
Gross patient and resident service revenue:		
Hospital inpatient services	\$ 4,231,685	\$ 4,058,583
Hospital outpatient services	20,652,491	20,156,424
Nursing home services	6,939,585	4,011,569
Clinic services	2,896,789	2,608,389
<b>Total gross patient and resident service revenue</b>	<b>34,720,550</b>	<b>30,834,965</b>
Revenue reductions:		
Contractual allowances	3,673,174	5,871,617
Provision for bad debt	953,041	922,866
<b>Total revenue deductions</b>	<b>4,626,215</b>	<b>6,794,483</b>
<b>Net patient and resident service revenue</b>	<b>\$ 30,094,335</b>	<b>\$ 24,040,482</b>

Approximately 38% and 46% of gross patient service and resident revenue was from participation in the Medicare and Medi-Cal programs, respectively, for the year ended June 30, 2020. Approximately 39% and 40% of gross patient service revenue was from participation in the Medicare and Medi-Cal programs, respectively, for the year ended June 30, 2019.

#### 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 \$106,359 and \$1,138,653 in AB-915 funds for the years ended June 30, 2020 and 2019, 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 revenues, expenses, and changes in net position.

#### Intergovernmental Transfers

The District qualifies for rate-range intergovernmental transfers (IGT) from the California State Health and Human Services Agency Department of Health Care Services. The District recorded \$3,081,662 and \$1,354,552 in IGT funds for the years ended June 30, 2020 and 2019, 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 revenues, expenses, and changes in net position.

# Last Frontier Healthcare District

## Notes to Financial Statements

---

### **Note 6: Charity Care**

The District provides healthcare 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 \$706 and \$6,133 for the years ended June 30, 2020 and 2019, respectively.

# Last Frontier Healthcare District

## Notes to Financial Statements

### Note 7: Capital Assets

Capital assets consisted of the following:

	Balance July 1, 2019	Additions	Retirements	Transfers	Balance June 30, 2020
<b>Nondepreciable capital assets:</b>					
Land	\$ 461,096	\$ -	\$ -	\$ -	\$ 461,096
Construction in progress	15,050,593	27,133,475	-	(67,655)	42,116,413
<b>Total nondepreciable capital assets</b>	<b>15,511,689</b>	<b>27,133,475</b>	<b>-</b>	<b>(67,655)</b>	<b>42,577,509</b>
<b>Depreciable capital assets:</b>					
Land improvements	262,653	-	-	-	262,653
Buildings and improvements	4,296,173	-	-	-	4,296,173
Equipment	6,171,954	216,281	-	44,356	6,432,591
Software	1,705,340	14,500	-	23,299	1,743,139
<b>Total depreciable capital assets</b>	<b>12,436,120</b>	<b>230,781</b>	<b>-</b>	<b>67,655</b>	<b>12,734,556</b>
<b>Total capital assets before depreciation</b>	<b>27,947,809</b>	<b>27,364,256</b>	<b>-</b>	<b>-</b>	<b>55,312,065</b>
<b>Accumulated depreciation</b>	<b>(10,412,547)</b>	<b>(505,186)</b>	<b>-</b>	<b>-</b>	<b>(10,917,733)</b>
<b>Depreciable capital assets - Net</b>	<b>2,023,573</b>	<b>(274,405)</b>	<b>-</b>	<b>67,655</b>	<b>1,816,823</b>
<b>Capital assets - Net</b>	<b>\$ 17,535,262</b>	<b>\$ 26,859,070</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 44,394,332</b>

At June 30, 2020, construction in progress consisted primarily of various building improvement projects to the District's acute care and emergency facilities, which were fully completed in October of 2020.

# Last Frontier Healthcare District

## Notes to Financial Statements

### Note 7: Capital Assets (Continued)

	Balance July 1, 2018	Additions	Retirements	Transfers	Balance June 30, 2019
<b>Nondepreciable capital assets:</b>					
Land	\$ 461,096	\$ -	\$ -	\$ -	\$ 461,096
Construction in progress	4,802,322	10,712,395	-	(464,124)	15,050,593
<b>Total nondepreciable capital assets</b>	<b>5,263,418</b>	<b>10,712,395</b>	<b>-</b>	<b>(464,124)</b>	<b>15,511,689</b>
<b>Depreciable capital assets:</b>					
Land improvements	262,653	-	-	-	262,653
Buildings and improvements	4,099,123	-	-	197,050	4,296,173
Major movable equipment	6,021,620	-	-	150,334	6,171,954
Software	1,584,432	4,168	-	116,740	1,705,340
<b>Total depreciable capital assets</b>	<b>11,967,828</b>	<b>4,168</b>	<b>-</b>	<b>464,124</b>	<b>12,436,120</b>
<b>Total capital assets before depreciation</b>	<b>17,231,246</b>	<b>10,716,563</b>	<b>-</b>	<b>-</b>	<b>27,947,809</b>
<b>Accumulated depreciation</b>	<b>(9,881,400)</b>	<b>(531,147)</b>	<b>-</b>	<b>-</b>	<b>(10,412,547)</b>
<b>Depreciable capital assets - Net</b>	<b>2,086,428</b>	<b>(526,979)</b>	<b>-</b>	<b>464,124</b>	<b>2,023,573</b>
<b>Capital assets - Net</b>	<b>\$ 7,349,846</b>	<b>\$ 10,185,416</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,535,262</b>

# Last Frontier Healthcare District

## Notes to Financial Statements

### Note 8: Long-Term Debt

Long-term debt consisted of the following:

	July 1, 2019	Additions	Reductions	June 30, 2020	Amounts Due Within One Year
Payroll Protection Program Loan	\$ -	\$ 1,793,415	\$ -	\$ 1,793,415	\$ 892,246
USDA Loan	-	29,692,454	-	29,692,454	480,000
<b>Totals</b>	<b>\$ -</b>	<b>\$ 31,485,869</b>	<b>\$ -</b>	<b>\$ 31,485,869</b>	<b>\$ 1,372,246</b>

Scheduled payments of principal and interest on long-term debt are summarized as follows:

<i>Years ending June 30,</i>	Principal	Interest	Total
2021	\$ 1,372,246	\$ 417,422	\$ 1,789,668
2022	1,320,052	848,866	2,168,918
2023	430,927	827,811	1,258,738
2024	443,316	815,422	1,258,738
2025	456,060	802,678	1,258,738
2026-2030	2,484,685	3,809,005	6,293,690
2031-2035	2,862,995	3,430,695	6,293,690
2036-2040	3,298,907	2,994,783	6,293,690
2041-2045	3,801,187	2,492,503	6,293,690
2046-2050	4,379,940	1,913,750	6,293,690
2051-2055	5,046,819	1,246,871	6,293,690
2056-2060	5,588,735	704,954	6,293,689
<b>Totals</b>	<b>\$ 31,485,869</b>	<b>\$ 20,304,760</b>	<b>\$ 51,790,629</b>

**Paycheck Protection Program loan** - In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES Act) created and funded the Small Business Administration (SBA) Paycheck Protection Program (PPP) to provide loans designated to help small businesses cover their near-term operating expenses and to provide an incentive to retain their employees during the COVID-19 crisis. The District applied for and was approved for a loan of \$1,793,415, which may be partially or fully forgiven based on the level of employee retention and if utilized for payroll costs, mortgage obligations, rent, or utilities within a specified covered period and in accordance with the terms and conditions of the PPP loan. The PPP loan was forgiven in December 2020.

# Last Frontier Healthcare District

## Notes to Financial Statements

---

### **Note 8: Long-Term Debt** (Continued)

**USDA Loan** - Effective July 1, 2019, the District issued \$35,130,000 in certificates of participation bonds (2019 Capital Projects, Series A, Series B, Series C, and Series D), with each bond series due in varying annual principal installments ranging from \$90,000 to \$130,000 in 2020 and \$273,000 to \$342,000 through maturity in 2059, plus interest at a rate of 2.875% per annum and are secured by real property, gross revenue of the district, and assessed property tax revenue. On the same date, the District entered into a Community Facilities Loan and Grants purchase agreement with USDA Rural Development to purchase the certificates of participation.

### **Note 9: Medicare Refundable Advance**

As a result of the COVID-19 pandemic, CMS offered an accelerated and advance payment program that gave healthcare providers the opportunity to receive an advance on future Medicare payments. The District received a non-interest bearing Medicare refundable advance of \$2,257,009 in 2020. Repayment of the Medicare refundable advance is expected to begin 12 months after receipt of the advance. The District had a Medicare refundable advance liability totaling \$2,257,009 at June 30, 2020.

### **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 \$34,606 and \$25,252 for the years ended June 30, 2020 and 2019, respectively.

### **Note 11: 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 who 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. Retirement contributions for the years ended June 30, 2020 and 2019, were approximately \$358,000 and \$279,000, respectively.

# Last Frontier Healthcare District

## Notes to Financial Statements

---

### Note 12: 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 four 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, 2020 and 2019, was \$130,941 and \$124,421, respectively.

### Note 13: 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 healthcare 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:

	2020	2019
Medicare	24 %	27 %
Medi-Cal	31 %	35 %
Other third-party payors	15 %	13 %
Patients	30 %	25 %
Totals	100 %	100 %

### Note 14: COVID-19 Relief Funds and Grant Revenue

During 2020, the District received \$4,239,298 in grant funding from the HHS Provider Relief Fund (PRF), which was established as a result of the CARES Act. Based on the terms and conditions of the grant, the District earns the grant by incurring healthcare-related expenses attributable to COVID-19 that another source has not reimbursed and is not obligated to reimburse or by incurring lost revenues, defined as a negative change in year-over-year net patient service revenue. During 2020, the District recognized \$616,131 in revenue related to this program, which reflects management's estimate of the amount of the grant earned, including consideration for uncertainties related to reporting guidance still developing as of the date the financial statements were available to be issued. Unearned revenue related to the PRF was \$3,623,167 at June 30, 2020.

### Note 15: Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 classifications. Such reclassifications had no effect on the previously reported amounts of net position.

## **Supplementary Information**

---



## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Board of Directors  
Last Frontier Healthcare District  
Alturas, California

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Last Frontier Healthcare District (the "District"), which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated April 26, 2021.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be a significant deficiency, which is described in the accompanying schedule of findings and questioned costs as item 2020.001.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Responses to Finding**

The District's response to the finding identified in our audit are described in the accompanying schedule of finding and questioned costs. The District's responses were not subject to the audit procedures applied in the audit findings of the financial statements, and accordingly we express no opinion on them.

## **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP

April 26, 2021  
Spokane, Washington

## **Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance**

Board of Directors  
Last Frontier Healthcare District  
Alturas, California

### **Report on Compliance for Each Major Federal Program**

We have audited Last Frontier Healthcare District's (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2020. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility for Compliance***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. Code of Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on the District's compliance.

#### ***Opinion***

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

## Other Matters

### *Report on Internal Control Over Compliance*

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies. However, deficiencies may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Wipfli LLP

April 26, 2021  
Spokane, Washington

# Last Frontier Healthcare District

## Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

Federal Granter/Pass-Through Granter/Program or Cluster Title	Federal CFDA Number	Award Number	Period of Award	Loan Balance at Beginning of Year	Loan Draws During the Year	Total Federal Expenditures
U.S. Department of Agriculture - Direct Program: Community Facilities Loans and Grants Cluster	10.766	04-025-5320	09/28/2017 to 07/01/2059	\$ -	\$ 29,692,454	\$ 29,692,454
<b>Total expenditures of federal awards</b>				<b>\$ -</b>	<b>\$ 29,692,454</b>	<b>\$ 29,692,454</b>

See Independent Auditor's Report.  
See notes to schedule of expenditures of federal awards.

# Last Frontier Healthcare District

## Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2020

---

### Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Last Frontier Healthcare District (the "District") under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

### Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

### Note 3: USDA Debt Commitment

On July 1, 2019, the District issued \$35,130,000 in certificates of participation bonds (2019 Capital Projects, Series A, Series B, Series C, and Series D), with each bond series due in varying annual principal installments ranging from \$90,000 to \$130,000 in 2020 and \$273,000 to \$342,000 through maturity in 2059, plus interest at a rate of 2.875% per annum. On the same date, the District entered into a Community Facilities Loan and Grants purchase agreement with USDA Rural Development to purchase the certificates of participation.

The expenditures charged to loan funds for the year ended June 30, 2020 consisted of the following:

Expenditures incurred, charged to major program during 2019	\$ 7,965,243
Expenditures incurred during 2020	21,727,211
<hr/>	
Total loan balance at June 30, 2020	\$ 29,692,454

### Note 4: Indirect Cost

The District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

### Note 5: Subrecipients

The District did not pass through any federal awards to subrecipients.

# Last Frontier Healthcare District

## Schedule of Findings and Questioned Costs

Year Ended June 30, 2020

---

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_ yes  x  no

Significant deficiency(ies) identified?  x  yes \_\_\_ no

Noncompliance material to financial statements noted? \_\_\_ yes  x  no

#### Federal Awards

Internal control over major programs:

Material weakness(es) identified? \_\_\_ yes  x  no

Significant deficiency(ies) identified?  x  yes  x  no

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance [2 CFR 200.516(a)]? \_\_\_ yes  x  no

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.766	U.S. Department of Agriculture - Rural Development - Communities Facilities Loans and Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?  x  yes \_\_\_ no

# Last Frontier Healthcare District

## Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2020

---

### Section II - Financial Statement Findings

#### Finding 2020.001 - Internal Control Over Preparation of the Financial Statements

**Condition:** Management is responsible for the accuracy and completeness of all financial records and related information and for establishment and maintenance of internal controls for the fair presentation of financial statements and footnote disclosures in accordance with generally accepted accounting principles (GAAP) in the United States. Their responsibilities include adjusting the financial statements to correct material misstatements. Management contracts with a third party to assist in reviewing interim financial statements and to ensure accurate financial reporting. As part of our professional services for the year ended June 30, 2020, Wipfli LLP drafted the financial statements and related footnote disclosures. The outsourcing of these services is not unusual for similar-sized organizations as a result of management's cost-benefit decision to rely on outside accounting expertise rather than devote internal resources to preparing audited financial statements.

**Criteria:** Government Auditing Standards consider the inability to report financial data reliably in accordance with GAAP to be an internal control deficiency.

**Cause:** The completeness of the financial statement disclosures and the accuracy of the overall financial presentation may be negatively impacted, since outside auditors do not have the same comprehensive understanding as its internal finance staff.

**Effect:** The independent auditor's assistance with preparation of the financial statements to provide the necessary understanding of the current accounting and disclosure requirements represents a significant deficiency in the District's internal controls over financial reporting.

**Recommendation:** We recommend management and those charged with governance continue to evaluate the degree of risk associated with this condition because of cost or other considerations.

**View of responsible officials:** Management believes committing the resources necessary to perform a review of the footnote disclosures for completeness would be a duplication of expenditures, since this is part of the cost of the audit engagement. In addition, the Chief Executive Officer and Chief Financial Officer review internal financial statements on a monthly basis and present the results to the Board of Directors.



# Last Frontier Healthcare District

## Schedule of Prior-Year Findings and Questioned Costs

Year Ended June 30, 2019

---

### Section II - Financial Statement Findings

Finding 2019.001 - Internal Control Over Preparation of the Financial Statements

Condition: Management is responsible for the accuracy and completeness of all financial records and related information and for establishment and maintenance of internal controls for the fair presentation of financial statements and footnote disclosures in accordance with generally accepted accounting principles (GAAP) in the United States. Their responsibilities include adjusting the financial statements to correct material misstatements. Management contracts with a third party to assist in reviewing interim financial statements and to ensure accurate financial reporting. As part of our professional services for the year ended June 30, 2019, Wipfli LLP drafted the financial statements and related footnote disclosures. The outsourcing of these services is not unusual for similar-sized organizations as a result of management's cost-benefit decision to rely on outside accounting expertise rather than devote internal resources to preparing audited financial statements.

Current Status: Not corrected; See current-year finding 2020.001.