Last Frontier Healthcare District

Alturas, California

Financial Statements and Supplementary Information

Years Ended June 30, 2019 and 2018

WIPFLi LLP
CPAs and Consultants

Last Frontier Healthcare District

Years Ended June 30, 2019 and 2018

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WIPFLi LLP

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, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States, 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, 2019 and 2018, 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.

WIPFLi LLP

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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*, is presented for purposes of additional analysis, and is 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 1, 2020, 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 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 1, 2020
Spokane, Washington

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, 2019 and 2018. We encourage readers to consider the information presented here in conjunction with the District's financial statements, including the notes thereto.

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 reimbursement 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, 2019 and 2018, the District received property tax revenue of $2,264,556 and $2,382,250, respectively.

The District is governed by a five-member elected Board of Directors. Day-to-day operations are managed by the Chief Executive Officer. The District employed 193 employees on June 30, 2019, and had an annual payroll of $6.9 million, not including benefits.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements. The financial statements are composed of the statements of net position; revenue, 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.

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, 2019 and 2018, are accounted for in the statements of revenue, expenses, and changes in net position. These statements can be used to determine whether the District has successfully recovered all of its costs through its patient 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 subsequent period.

The final required statements are the statements of cash flows, which report cash receipts, cash payments, and net changes in cash resulting from 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 fiscal 2019 ended with an excess of revenue over expenses of $7,075,300. The gain was driven largely by third-party IGT settlements from the District's Medi-Cal managed care provider.

- The District's income from operations was $4,495,360 in 2019, $1,963,503 in 2018, and $1,384,992 in 2017.

- During 2019, 2018, and 2017, excess of revenue over expense totaled $7,075,300, $4,988,475, and $3,771,940, respectively.

Financial Analysis of the District

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

Condensed Statements of Net Position
(In Thousands)

				Change	
June 30,	2019	2018	2017	2019-2018	2018-2017
Current assets	$ 22,393	$ 21,677	$ 19,996	$ 716	$ 1,681
Capital assets - Net	2,024	2,086	2,421	(62)	(335)
Noncurrent assets	16,571	6,298	2,412	10,273	3,886
Total assets	$ 40,988	$ 30,061	$ 24,829	$ 10,927	$ 5,232
Current liabilities	$ 5,489	$ 1,637	$ 1,394	$ 3,852	$ 243
Net position:					
Net investment in capital assets	17,535	7,350	3,808	10,185	3,542
Restricted by donors	1,059	1,034	1,024	25	10
Unrestricted	16,905	20,040	18,603	(3,135)	1,437
Total net position	35,499	28,424	23,435	7,075	4,989
Total liabilities and net position	$ 40,988	$ 30,061	$ 24,829	$ 10,927	$ 5,232

The District's net position reflects an increase that is caused primarily by third-party IGT settlements, which have significantly increased the District's cash and cash equivalents.

- Current assets increased by approximately $716,000 in 2019 and increased by $1,681,000 in 2018. The decline in 2019 was largely caused by the use of some of the District's cash reserves to begin funding the new facility construction project.

- Noncurrent assets consist mostly of assets limited as to use by borrowing agreements or Board-designated funds. Total capital assets increased by $10,273,000 in 2019 because of construction in progress.

Financial Analysis of the District (Continued)

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

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

				Change	
June 30,	2019	2018	2017	2019-2018	2018-2017
Revenue:					
Net patient service revenue	$ 24,040	$ 19,938	$ 17,962	$ 4,102	$ 1,976
Other revenue	331	272	241	59	31
Total revenue	24,371	20,210	18,203	4,161	2,007
Expenses:					
Salaries	6,877	6,252	6,141	625	111
Benefits	2,367	2,071	2,003	296	68
Professional fees	5,641	5,175	4,144	466	1,031
Supplies	1,842	1,519	1,360	323	159
Purchased services	1,040	1,053	1,044	(13)	9
Depreciation	531	601	733	(70)	(132)
Other expenses	1,578	1,576	1,393	2	183
Total expenses	19,876	18,247	16,818	1,629	1,429
Income from operations	4,495	1,963	1,385	2,532	578
Nonoperating revenue - Net	2,580	3,025	2,387	(445)	638
Excess of revenue over expenses	7,075	4,988	3,772	2,087	1,216
Net position at beginning	28,424	23,435	19,663	4,989	3,772
Net position at end	$ 35,499	$ 28,423	$ 23,435	$ 7,076	$ 4,988

Financial Analysis of the District (Continued)

Net patient service revenue increased by 20.6% in 2019. The increase was caused largely by growth that the District experienced in both inpatient and outpatient services, including increases in acute inpatient days, swing bed days, skilled nursing facility days, emergency room visits, laboratory tests, radiology exams, and ambulance runs. In addition, over the last couple of fiscal years, 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 operation.

Nonoperating net revenue also decreased by 14.7% in 2019. This was largely caused by a large donation that the facility received for the new facility project in the prior year. Nonoperating net revenue also includes operation of the retail pharmacy, which commenced in 2018. The retail pharmacy operated at a loss of about $9,200 in 2019 . The retail pharmacy is anticipated to operate a profit in FY 2020.

Salaries and benefits increased in 2019 by 11.1% because of rate increases from the District's health insurance provider, increased salary expense because of minimum wage increases in California, and additional staffing to accommodate increases in volumes and to help improve service provision to patients of the District. In the prior year, there was a 2.2% increase because of wage increases. The total number of full-time equivalent employees was 150.80, 132.93, and 131.74 in 2019, 2018, and 2017, respectively.

Total operating expenses increased 8.9% from 2018 to 2019, compared with the 8.5% increase that was experienced in the previous year from 2017 to 2018. Professional fees saw a slight increase from 2018 to 2019. This was mostly caused 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.

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.

- Seismic Building Compliance: The state of California has imposed new hospital seismic safety standards, and the District continues to work toward building a new hospital and clinic facility that will meet these seismic mandates. While the District has determined this facility can be built and is feasible for the District to build, the financial impacts of such a large capital project will be felt well into the future.

In summary, the external environment continues to challenge hospitals, small rural hospitals in particular, with continuing declines in reimbursement, shortages of key clinical staff, increases in uncompensated care, and ongoing labor and health insurance issues. At the same time, the District's employees are working together to continue to find ways to make progress on improving how the District organizes and processes work in such a way that it continues to improve clinical care and service to its patients and community while striving to improve its financial position and 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
228 West McDowell Avenue
Alturas, CA 96101

Last Frontier Healthcare District

Statements of Net Position

June 30,	2019	2018
Current assets:		
Cash and cash equivalents	$ 17,618,115	$ 16,842,422
Receivables:		
Patient and resident - Net	2,438,764	1,864,268
Other	478,531	456,466
Prepaids	200,686	248,293
Inventories	438,136	382,069
Due from third-party reimbursement programs	1,218,706	1,883,298
Total current assets	22,392,938	21,676,816
Restricted cash and cash equivalents by donors	1,059,417	1,034,187
Noncurrent assets:		
Nondepreciable capital assets	15,511,689	5,263,418
Depreciable capital assets - Net	2,023,573	2,086,428
Noncurrent assets - Net	17,535,262	7,349,846
TOTAL ASSETS	$ 40,987,617	$ 30,060,849

Last Frontier Healthcare District

Statements of Net Position (Continued)

June 30,	2019	2018
Current liabilities:		
Accounts payable	$ 4,835,280	$ 1,146,845
Accrued compensation and related liabilities	400,360	294,628
Accrued compensated absences	247,209	188,607
Resident trust accounts	6,152	7,453
Total current liabilities	5,489,001	1,637,533
Net position:		
Net investment in capital assets	17,535,262	7,349,846
Restricted - Expendable	1,059,417	1,034,187
Unrestricted	16,903,937	20,039,283
Total net position	35,498,616	28,423,316
TOTAL LIABILITIES AND NET POSITION	$ 40,987,617	$ 30,060,849

See accompanying notes to financial statements.

Last Frontier Healthcare District

Statements of Revenue, Expenses, and Changes in Net Position

Years Ended June 30,	2019	2018
Revenue:		
Net patient and resident service revenue	$ 24,040,482	$ 19,938,327
Other revenue	331,360	272,007
Total revenue	24,371,842	20,210,334
Expenses:		
Salaries	6,876,994	6,252,397
Benefits	2,366,984	2,071,131
Professional fees	5,641,445	5,174,900
Supplies	1,842,033	1,518,639
Purchased services	1,039,799	1,052,829
Depreciation	531,147	601,134
Other expenses	1,578,080	1,575,801
Total expenses	19,876,482	18,246,831
Income from operations	4,495,360	1,963,503
Nonoperating revenue (expenses):		
Property tax revenue	2,264,556	2,382,250
Investment income	337,465	193,627
Noncapital grants and contributions	6,500	504,153
Retail pharmacy - Net	(9,157)	(38,945)
Interest expense	(17,106)	(12,799)
Other expenses	(2,318)	(3,314)
Total nonoperating revenue - Net	2,579,940	3,024,972
Excess of revenue over expenses	7,075,300	4,988,475
Net position at beginning	28,423,316	23,434,841
Net position at end	$ 35,498,616	$ 28,423,316

See accompanying notes to financial statements.

Last Frontier Healthcare District

Statements of Cash Flows

Years Ended June 30,	2019	2018
Increase in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from and on behalf of patients and third-party payors	$ 24,108,513	$ 20,351,533
Receipts from other operating revenue	331,360	272,007
Payments to employees for salaries and benefits	(9,079,302)	(8,315,327)
Payments to suppliers, contractors, and others	(6,423,029)	(9,218,858)
Net cash provided by operating activities	8,937,542	3,089,355
Cash flows from noncapital financing activities:		
Cash received from property tax revenue	2,264,556	2,382,250
Other nonoperating revenue	4,186	500,839
Retail pharmacy	(9,157)	(38,945)
Interest payments	(17,106)	(12,799)
Net cash provided by noncapital financing activities	2,242,479	2,831,345
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(10,716,563)	(4,142,497)
Net cash used in capital and related financing activities	(10,716,563)	(4,142,497)
Cash flows from investing activities:		
Interest received	337,465	193,627
Increase in restricted cash and cash equivalents by donors	(25,230)	(9,756)
Net cash provided by investing activities	312,235	183,871
Net increase in cash and cash equivalents	775,693	1,962,074
Cash and cash equivalents at beginning	16,842,422	14,880,348
Cash and cash equivalents at end	$ 17,618,115	$ 16,842,422

Last Frontier Healthcare District

Statements of Cash Flows (Continued)

Years Ended June 30,	2019	2018
Reconciliation of income from operations to net cash provided by operating activities:		
Income from operations	$ 4,495,360	$ 1,963,503
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	531,147	601,134
Provision for bad debts	922,866	664,862
Changes in operating assets and liabilities:		
Receivables	(1,519,431)	(663,117)
Prepaids	47,607	(30,057)
Inventories	(56,067)	(101,609)
Due from third-party reimbursement programs	664,592	411,458
Accounts payable	3,688,093	238,415
Accrued compensation and related liabilities	164,676	8,201
Resident trust accounts	(1,301)	(3,435)
Total adjustments	4,442,182	1,125,852
Net cash provided by operating activities	$ 8,937,542	$ 3,089,355

See accompanying 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 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 which require more significant judgments and include the valuation of accounts receivable, including contractual allowances and an allowance for doubtful accounts, and the estimated third-party payor settlements.

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 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.

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"). 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 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.

Asset Impairment

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset might have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment, or approval of laws or regulations or other changes in environmental factors; technological changes or evidence of obsolescence; changes in the manner or duration of use of a capital asset; and construction stoppage.

The determination of the impairment loss is dependent on the event or circumstance in which the impairment occurred. Impairment losses, if any, are reported in the statements of revenue, expenses, and changes in net position. No impairment losses were recorded in the years ended June 30, 2019 and 2018.

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 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. Unspent portions of capital-related debt proceeds are not included in this category.

Restricted expendable: 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, 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.

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 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 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 revenue, 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 payable in two installments, due on December 10 and April 10 of each calendar year.

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 April 01, 2020, 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.

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 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.

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 2017.

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 2019 and 2018, 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 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 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 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, 2019, the District has 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, 2019 and 2018, the net carrying amounts of deposits were $2,939,927 and $5,203,714, respectively, and the bank balances were $1,739,342 and $5,100,288, respectively. Of the bank balances, $250,000 each year was covered by federal deposit insurance, and $1,489,342 and $4,850,288, 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:

	2019	2018
Bank deposits	$ 2,939,927	$ 5,203,714
LAIF	14,670,561	11,629,780
Resident trust accounts	6,152	7,453
Petty cash	1,475	1,475
Total cash and cash equivalents	$ 17,618,115	$ 16,842,422

Note 4: Patient and Resident Accounts Receivable

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

	2019	2018
Patient and resident accounts receivable	$ 5,673,805	$ 4,452,771
Less:		
Contractual adjustments	2,308,199	1,760,126
Allowance for doubtful accounts	926,842	828,377
Patient and resident accounts receivable - Net	$ 2,438,764	$ 1,864,268

Note 5: Net Patient and Resident Service Revenue

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

	2019	2018
Gross patient and resident service revenue:		
Hospital inpatient services	$ 4,058,583	$ 2,664,656
Hospital outpatient services	20,156,424	19,303,253
Nursing home services	4,011,569	3,695,992
Clinic services	2,608,389	2,560,265
Total gross patient and resident service revenue	30,834,965	28,224,166
Revenue reductions:		
Contractual allowances	5,871,617	7,620,977
Provision for bad debt	922,866	664,862
Total revenue deductions	6,794,483	8,285,839
Net patient and resident service revenue	$ 24,040,482	$ 19,938,327

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

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. Approximately 38% and 41% of gross patient service revenue was from participation in the Medicare and Medi-Cal programs, respectively, for the year ended June 30, 2018.

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 $1,138,653 and $1,465,371 in AB-915 funds for the years ended June 30, 2019 and 2018, 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 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 $6,133 and $4,736 for the years ended June 30, 2019 and 2018, respectively.

Last Frontier Healthcare District

Notes to Financial Statements

Note 7: Capital Assets

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

	Balance July 1, 2018	Additions	Deletions/ Transfers	Balance June 30, 2019
Nondepreciable capital assets:				
Land	$ 461,096	$ -	$ -	$ 461,096
Construction in progress	4,802,322	10,455,860	(207,589)	15,050,593
Total nondepreciable capital assets	5,263,418	10,455,860	(207,589)	15,511,689
Depreciable capital assets:				
Land improvements	262,653	-	-	262,653
Buildings and improvements	4,099,123	-	197,050	4,296,173
Equipment	6,021,620	-	150,334	6,171,954
Software	1,584,432	-	120,908	1,705,340
Total depreciable capital assets	11,967,828	-	468,292	12,436,120
Total capital assets before depreciation	17,231,246	10,455,860	260,703	27,947,809
Accumulated depreciation:				
Land improvements	(198,055)	(17,910)	-	(215,965)
Buildings and improvements	(3,434,204)	(93,346)	-	(3,527,550)
Equipment	(4,704,488)	(352,883)	-	(5,057,371)
Software	(1,544,653)	(67,008)	-	(1,611,661)
Total accumulated depreciation	(9,881,400)	(531,147)	-	(10,412,547)
Depreciable capital assets - Net	2,086,428	(531,147)	468,292	2,023,573
Capital assets - Net	$ 7,349,846	$ 9,924,713	$ 260,703	$ 17,535,262

Note 7: Capital Assets (Continued)

	Balance July 1, 2017	Additions	Deletions/ Transfers	Balance June 30, 2018
Nondepreciable capital assets:				
Land	$ 461,096	$ -	$ -	$ 461,096
Construction in progress	926,853	4,143,315	(267,846)	4,802,322
Total nondepreciable capital assets	1,387,949	4,143,315	(267,846)	5,263,418
Depreciable capital assets:				
Land improvements	262,653	-	-	262,653
Buildings and improvements	4,021,721	-	77,402	4,099,123
Major movable equipment	5,831,994	-	189,626	6,021,620
Software	1,584,432	-	-	1,584,432
Total depreciable capital assets	11,700,800	-	267,028	11,967,828
Total capital assets before depreciation	13,088,749	4,143,315	(818)	17,231,246
Accumulated depreciation:				
Land improvements	(180,145)	(17,910)	-	(198,055)
Buildings and improvements	(3,343,381)	(90,823)	-	(3,434,204)
Equipment	(4,280,742)	(423,746)	-	(4,704,488)
Software	(1,475,998)	(68,655)	-	(1,544,653)
Total accumulated depreciation	(9,280,266)	(601,134)	-	(9,881,400)
Depreciable capital assets - Net	2,420,534	(601,134)	267,028	2,086,428
Capital assets - Net	$ 3,808,483	$ 3,542,181	$ (818)	$ 7,349,846

At June 30, 2019 and 2018, construction in progress consisted primarily of various building improvement projects to the District's acute care and emergency facilities. See Note 14 for additional information related to construction in progress at June 30, 2019.

Note 8: Long-Term Future Obligations

The District elected to self-fund the acquisition and construction of major capital facilities with an expectation to refinance with USDA in the near future. Therefore, on June 30, 2019, the District did not have any outstanding loans with any federal awarding agency or financial institutions.

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.

However, since the debt agreement was not executed until July 1, 2019, and therefore not legally binding by the end of the District's fiscal year end, no federal revenue receivable or debt liability was recorded in the financial statements as of June 30, 2019. As of April 01, 2020, the District expended $3,841,954 in 2018 and $7,965,243 in 2019 of expenditures deemed to be expenditures of federal awards; all of which was reimbursed by USDA on or before July 31, 2019.

Note 9: 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 $25,252 and $41,798 for the years ended June 30, 2019 and 2018, respectively.

Note 10: 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.

Note 10: Retirement Plan (Continued)

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, 2019 and 2018, forfeitures reduced the District's retirement expense by more than $20,000 each year. Retirement expense for the years ended December 31, 2019 and 2018, was approximately $400,000 for both years.

Note 11: 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, 2019 and 2018, was $124,421 and $85,943, respectively.

Note 12: 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:

	2019	2018
Medicare	27 %	23 %
Medi-Cal	35 %	34 %
Other third-party payors	13 %	17 %
Patients	25 %	26 %
Totals	100 %	100 %

Note 13: Functional Expenses

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

	2019	2018
Healthcare services	$ 18,780,133	$ 17,134,776
Management and administrative	1,096,349	1,112,055
Total expenses	$ 19,876,482	$ 18,246,831

Note 14: 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 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 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 toward constructing a new hospital facility that will meet California's seismic requirements. The District has obtained financing from the United States Department of Agriculture (USDA) to help cover much of the expense of building the new hospital. In addition, the District has engaged a project management firm and 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.

Note 15: Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 classifications.

Note 16: Subsequent Events

On July 1, 2019, the District entered into a debt agreement with USDA Community Facilities Program in the amount of $35,130,00. The debt terms are disclosed in Note 8: Long-Term Future Obligations Note.

Supplementary Information

WIPFLi LLP

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, 2019, and the related statements of revenue, 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 01, 2020.

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") to determine the auditing 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 significant deficiencies, which are described in the accompanying schedule of findings and questioned costs as item 2019.001.

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 determination of financial statement amounts. 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 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.

Wipfli LLP

Wipfli LLP

April 01, 2020
Spokane, Washington

WIPFLi LLP

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, 2019. The District's major federal program is identified in the summary of audit 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, 2019.

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

Wipfli LLP

April 01, 2020
Spokane, Washington

Last Frontier Healthcare District

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

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	$ -	$ 7,965,243	$ 7,965,243
Total expenditures of federal awards				$ -	$ 7,965,243	$ 7,965,243

See Independent Auditor's Report on Supplementary Information.

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, 2019

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, 2019. 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 Future Debt Commitment

At June 30, 2019, the District maintained a zero-loan balance with any federal awarding agency and financial institution. However, the District incurred $7,965,243 in federal expenditures. The loan balance reported on the SEFA differs from the federal expenditures balance reported on the SEFA, since the total federal expenditures includes amounts recorded in expenditures during the year and accounts payable at year-end which were awaiting anticipated reimbursement from USDA. The District elected to self-fund the acquisition and construction of major capital facilities with an expectation to refinance with USDA in the near future.

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.

However, since the debt agreement was not executed until July 1, 2019, and therefore not legally binding by the end of the District's fiscal year end, no federal revenue receivable or debt liability was recorded in the financial statements as of June 30, 2019. As of April 01, 2020, the District expended $3,841,954 in 2018 and $7,965,243 in 2019 of expenditures deemed to be expenditures of federal awards; all of which was reimbursed by USDA on or before July 31, 2019.

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: Sub-Recipients

The District does not have any sub-recipients of federal awards.

Last Frontier Healthcare District

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

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 and State Awards

Internal control over major programs:

- Material weakness(es) identified? ___ yes _x_ no
- Significant deficiency(ies) identified? ___ 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:

CFDA Number	Name of Federal Program or Cluster
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? ___ yes _x_ no

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 establishing and maintaining 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 prepare 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 in 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, 2018

Section II - Financial Statement Findings

Finding 2018.001 - 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 establishing and maintaining 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, 2018, 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 prepare audited financial statements.
Current Status:	Not corrected; See current-year finding 2019.001.