Last Frontier Healthcare District

Financial Statements and Supplementary Information

Years Ended June 30, 2024 and 2023

WIPFLI

Independent Auditor's Report

Board of Directors
Last Frontier Healthcare District
Alturas, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Last Frontier Healthcare District (the "District"), which comprise the statements of net position as of June 30, 2024 and 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2024 and 2023, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America (''GAAP'').

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards* (*Government Auditing Standards*), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Last Frontier Healthcare District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As described in Note 1 to the financial statements, Last Frontier Healthcare District adopted new accounting guidance, GASB Statement No. 96 - *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Last Frontier Healthcare District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards,* we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Last Frontier Healthcare District’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Last Frontier Healthcare District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

GAAP require that a management discussion and analysis ("MD&A") on pages 4 through 8 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, 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 inquires, the financial statements, and other knowledge we obtained during our audit of the 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 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the financial statements 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. The information has been subjected to the auditing procedures applied in the audits 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 GAAS. In our opinion, the information is 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 January 15, 2025, on our consideration of the District'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 Last Frontier Healthcare 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 District's internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

Spokane, Washington
January 15, 2025

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, 2024, 2023, and 2022. 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 (CAH), a distinct-part skilled nursing facility (SNF), two rural health clinics (RHCs), an ambulance service, and a retail pharmacy. The District is licensed for eight hospital beds and 50 long-term care beds. 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 operates a hospital designated as a 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, 2024 and 2023, the District received property tax revenue of $2,196,850 and $2,293,465, respectively.

The District is governed by an elected five-member Board of Directors. Day-to-day operations are managed by the Chief Executive Officer. The District employed approximately 205 full-time equivalent employees on June 30, 2024, and had an annual payroll of approximately $15.2 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.

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.

Required Financial Statements (Continued)

All of the revenue and expenses for the years ended June 30, 2024 and 2023, 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 as of the fiscal year ended June 30, 2024, resulted in an excess of revenue over expenses of $7,010,344. The profit was driven largely by an increased gain from operations over the prior year of approximately $4.9 million.

The District’s gain from operations was $4,225,209 in 2024, while the District’s loss from operations was $674,680 in 2023, and the District's loss from operations was $337,381 in 2022.

During 2024, excess of revenue over expenses totaled $7,010,344, while during 2023 and 2022 excess of expenses over revenue totaled $2,083,334 and $1,300,719, respectively.

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 legislation, should also be considered.

Last Frontier Healthcare District

Management's Discussion and Analysis (Continued)

Years Ended June 30, 2024, 2023, and 2022

Condensed Statements of Net Position
(In Thousands)

June 30,	2024	2023	2022	Change 2024-2023	Change 2023-2022
Other assets	$ 46,587	$ 45,417	$ 46,344	$ 1,170	$ (927)
Capital assets - Net	63,289	50,691	48,418	12,598	2,273
Total assets	$ 109,876	$ 96,108	$ 94,762	$ 13,768	$ 1,346
Other liabilities	$ 10,425	$ 3,291	$ 3,503	$ 7,134	$ (212)
Long-term liabilities	32,744	33,120	33,645	(376)	(525)
Total liabilities	43,169	36,411	37,148	6,758	(737)
Net position:					
Net investment in capital assets	24,162	17,046	14,263	7,116	2,783
Restricted	1,203	600	1,393	603	(793)
Unrestricted	41,342	42,051	41,958	(709)	93
Total net position	66,707	59,697	57,614	7,010	2,083
Total liabilities and net position	$ 109,876	$ 96,108	$ 94,762	$ 13,768	$ 1,346

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

- Other assets increased by approximately $1,170,000 in 2024 and decreased by $927,000 in 2023. The increase in 2024 corresponds with an increase in net patient and resident account receivables Investments and prepaids expenses

- Capital assets consisted of depreciable and nondepreciable capital assets. Total capital assets increased by $12,598,000 in 2024 due to the capitalization of construction in progress for the new SNF building and subscription-based technology arrangements.

The following table presents a summary of the statements of revenues, expenses, and changes in net position for the years ended June 30, 2024, 2023, and 2022:

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

				Change	
Years Ended June 30,	2024	2023	2022	2024-2023	2023-2022
Revenue:					
Net patient and resident service revenue	$ 42,578	$ 37,536	$ 34,631	$ 5,042	$ 2,905
Other revenue	3,838	3,245	3,041	593	204
Total revenue	46,415	40,781	37,672	5,634	3,109
Expenses:					
Salaries	15,190	13,795	12,127	1,395	1,668
Benefits	4,886	4,654	3,910	232	744
Professional fees	8,672	9,828	9,226	(1,156)	602
Supplies	6,591	6,656	6,563	(65)	93
Purchased services	1,965	2,006	1,999	(41)	7
Depreciation	2,512	2,094	2,092	418	2
Other expenses	2,374	2,423	2,093	(49)	330
Total expenses	42,190	41,456	38,010	734	3,446
Income (loss) from operations	4,225	(675)	(338)	4,900	(337)
Nonoperating revenue - Net	2,785	2,758	1,638	27	1,120
Excess of revenue over expenses	7,010	2,083	1,300	4,927	783
Net position at beginning of year	59,697	57,614	56,314	2,083	1,300
Net position at end of year	$ 66,707	$ 59,697	$ 57,614	$ 7,010	$ 2,083

Net patient service revenue increased by 13.4% in 2024. The increase was due to various volume decreases and increases across the various departments of the District.

Nonoperating revenue increased by 1.0% in 2024. This was caused by a increase in interest income.

Salaries and benefits increased in 2024 by 8.8% because of rate increases from the District's health insurance provider, annual raises, and minimum wage increases. The total number of FTEs was 205.0, 202.2, and 192.2 in 2024, 2023, and 2022, respectively.

Total operating expenses increased 1.8% from 2023 to 2024, compared with a 9.1% increase in the previous year from 2022 to 2023. Supplies expense saw a 1.0% decrease from 2023 to 2024. This was caused mostly by increased supplies relating to the COVID-19 pandemic and increased pharmaceutical costs in the prior year. In addition to these expenses, the District experienced decreases in the fees related to physician coverage in the clinic and hospital of 11.7% which are also categorized as professional fees on the financial statements.

<u>Items Affecting Operations</u>

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.

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

June 30,	2024	2023
Current assets:		
Cash and cash equivalents	$ 1,489,636	$ 1,652,651
Investments and assets limited to use	35,207,420	34,684,742
Receivables:		
Patient and resident accounts - Net	6,685,250	6,643,364
Other accounts receivable	856,579	858,854
Estimated third-party payor settlements	-	151,108
Inventories	414,895	432,608
Prepaid expenses	730,942	393,451
Total current assets	45,384,722	44,816,778
Noncurrent assets:		
Restricted cash and cash equivalents	1,202,570	600,354
Nondepreciable capital assets	20,997,651	7,488,307
Depreciable capital assets - Net	42,291,518	43,202,227
Noncurrent assets - Net	64,491,739	51,290,888
TOTAL ASSETS	$ 109,876,461	$ 96,107,666

Last Frontier Healthcare District

Statements of Net Position (Continued)

June 30,	2024	2023
Current liabilities:		
Accounts payable	$ 7,143,055	$ 1,319,143
Accrued salaries, payroll taxes, and benefits	1,043,961	963,127
Accrued interest	476,100	483,647
Current portion of long-term debt	539,000	525,000
Current maturities of subscription-based liabilities	633,275	-
Estimated third -party payor settlements	589,609	-
Total current liabilities	10,425,000	3,290,917
Noncurrent liabilities:		
Long-term debt, less current portion	32,581,000	33,120,000
Subscription-based liabilities, less current portion	163,368	-
Total noncurrent liabilities	32,744,368	33,120,000
Total liabilities	43,169,368	36,410,917
Net position:		
Net investment in capital assets	24,162,335	17,045,534
Restricted by lenders for debt service	1,202,570	600,354
Unrestricted	41,342,188	42,050,861
Total net position	66,707,093	59,696,749
TOTAL LIABILITIES AND NET POSITION	$ 109,876,461	$ 96,107,666

See accompanying notes to financial statements.

Last Frontier Healthcare District

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30,	2024	2023
Operating revenue:		
Net patient and resident service revenue	$ 42,576,619	$ 37,535,501
Other revenue	3,838,210	3,245,832
Total operating revenue	46,414,829	40,781,333
Operating expenses:		
Salaries	15,190,038	13,794,981
Benefits	4,885,505	4,653,637
Professional fees	8,672,242	9,828,316
Supplies	6,590,927	6,655,880
Purchased services	1,964,695	2,005,626
Depreciation	2,512,449	2,094,422
Other expenses	2,373,764	2,423,151
Total operating expenses	42,189,620	41,456,013
Gain (loss) from operations	4,225,209	(674,680)
Nonoperating revenue (expenses):		
Property tax revenue	2,196,850	2,293,465
Investment income	1,266,831	593,233
Noncapital grants and contributions	334,297	890,454
Interest expense	(1,012,843)	(1,016,896)
Other expenses	-	(2,242)
Total nonoperating revenue - Net	2,785,135	2,758,014
Excess of revenue over expenses	7,010,344	2,083,334
Net position at beginning of year	59,696,749	57,613,415
Net position at end of year	$ 66,707,093	$ 59,696,749

See accompanying notes to financial statements.

Last Frontier Healthcare District

Statements of Cash Flows

Years Ended June 30,	2024	2023
Change in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from and on behalf of patients and third-party payors	$ 43,275,450	$ 38,739,984
Receipts from other operating revenue	3,441,263	3,119,807
Payments to employees for salaries and benefits	(19,994,709)	(18,220,003)
Payments to suppliers, contractors, and others	(14,097,495)	(21,139,161)
Net cash provided by operating activities	12,624,509	2,500,627
Cash flows from noncapital financing activities:		
Cash received from property tax revenue	2,532,561	2,292,525
Cash received from grants and stimulus funding	334,297	888,212
Net cash provided by noncapital financing activities	2,866,858	3,180,737
Cash flows from capital and related financing activities:		
Interest paid on debt	(1,146,288)	(1,024,227)
Purchase of capital assets	(13,859,993)	(4,367,258)
Principal payments on long-term debt and SBITAs	(853,549)	(510,000)
Net cash used in capital and related financing activities	(15,859,830)	(5,901,485)
Cash flows from investing activities:		
Payments for investment purchases	(3,375,778)	(25,273,112)
Interest received	1,330,342	593,233
Net cash used in investing activities	(2,045,436)	(24,679,879)
Net change in cash and cash equivalents	(2,413,899)	(24,900,000)
Cash and cash equivalents at beginning of year	10,254,118	35,154,118
Cash and cash equivalents at end of year	$ 7,840,219	$ 10,254,118

Reconciliation of cash and cash equivalents to the statements of net position:

Current cash and cash equivalents	$ 1,489,636	$ 1,652,651
Cash included in investments and assets limited as to use	5,148,013	8,001,113
Noncurrent cash and cash equivalents - Restricted by lenders for debt service	1,202,570	600,354
Totals	$ 7,840,219	$ 10,254,118

Last Frontier Healthcare District

Statements of Cash Flows (Continued)

Years Ended June 30,	2024	2023
Reconciliation of gain (loss) from operations to net cash provided by operating activities:		
Gain (loss) from operations	$ 4,225,209	$ (674,680)
Adjustments to reconcile (gain) loss from operations to net cash provided by operating activities:		
Depreciation	2,512,449	2,094,422
Provision for bad debts	2,382,688	(198,348)
Changes in assets and liabilities:		
Patient and resident accounts receivable	(2,424,574)	175,853
Other accounts receivable	(396,947)	(126,025)
Estimated third-party payor settlements	740,717	1,226,978
Inventories	17,713	54,237
Prepaid expenses	(337,491)	168,184
Accounts payable	5,823,912	(448,609)
Accrued salaries, payroll taxes, and benefits	80,833	228,615
Total adjustments	8,399,300	3,175,307
Net cash provided by operating activities	$ 12,624,509	$ 2,500,627
Supplemental disclosure of significant noncash financing activities:		
Construction in progress in accounts payable	$ 5,210,191	$ -
Assets financed with subscription-based information technology arrangements	4,688,499	-

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 a political subdivision 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 eight-bed acute care facility that provides inpatient, outpatient, and emergency care services; two RHCs; a retail pharmacy; and a 50-bed SNF in Alturas, California.

The accompanying financial statements present the activities of the District. Accounting principles generally accepted in the United States of America (GAAP) require that these financial statements include the primary government and its component units. All significant activities and organizations the District exercises oversight responsibility for have been considered for inclusion in the financial statements.

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 the 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 significant 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.

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.

Restricted Cash and Cash Equivalents

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

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. A three-tier hierarchy prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

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.

Note 1: Summary of Significant Accounting Policies (Continued)

Patient and Residents Accounts Receivable and Credit Policy (Continued)

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.

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.

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.

Subscription Based Information Technology Arrangements

The District is a party to multiple noncancelable subscription based information technology arrangements (SBITAs). If the contract provides the District the right to use the present service capacity and the right to direct the use of the identified asset, it is considered to be or contain a SBITA. Subscription-based assets and liabilities are recognized at the agreement commencement date based on the present value of the future payments over the expected contract term. The SBITA asset is also adjusted for any prepayments made and capitalizable initial implementation costs as incurred.

Note 1: Summary of Significant Accounting Policies (Continued)

Subscription Based Information Technology Arrangements (Continued)

The SBITA liability is initially and subsequently recognized based on the present value of its future payments. Variable payments are included in the present value when the underlying rate or index is fixed and predictable for the life of the lease. Variable costs that depend on an unpredictable index are accounted for as expenses as they are incurred. Increases (decreases) to variable payments due to subsequent changes in an index or rate are recorded as an adjustment to expense in the period in which they are incurred.

The discount rate used is the implicit rate in the SBITA contract, if it is readily determinable, or the District's incremental borrowing rate.

For all underlying classes of assets, the District does not recognize SBITA assets and liabilities for short-term agreements that have a contract term of 12 months or less at contract commencement. Contracts containing termination clauses in which either party may terminate without cause and the notice period is less than 12 months are deemed short-term agreements with costs included in expense.

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

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.

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.

Note 1: Summary of Significant Accounting Policies (Continued)

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 District on December 10 and April 10 of each calendar year.

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).

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.

Note 1: Summary of Significant Accounting Policies (Continued)

Recently Adopted Accounting Pronouncement

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87 - *Leases*, as amended. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The District has adopted this guidance for the year ended June 30, 2024.

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 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 health maintenance organization (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 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.

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

Physician and Professional Services in 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, HMOs, 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 2020.

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. 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 January 19, 2024, 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 (CGC) 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, 2024 and 2023, the District had bank balances of $1,576,278 and $1,823,870, respectively. Of these balances, $250,000 were covered by federal deposit insurance each year for demand deposits with an additional $250,000 for time deposits. $1,326,278 and $1,323,870, 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).

Investments

Concentration of Credit Risk - The California Government Code limits the purchase of certain investments to defined percentages of the investment portfolio.

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the District manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

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 on 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.

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

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

	2024	2023
Current cash and cash equivalents:		
Bank deposits	$ 5,959,700	$ 6,567,549
LAIF	666,325	3,068,359
Resident trust accounts	8,622	15,481
Petty cash	3,002	2,375
Total current cash and cash equivalents	6,637,649	9,653,764
Noncurrent cash and cash equivalents - Restricted by lenders for debt service	1,202,570	600,354
Total cash and cash equivalents	$ 7,840,219	$ 10,254,118

The table below identifies the investment types that are authorized for the District by the CGC. The table also identifies certain provisions of the CGC that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the District rather than the general provisions of the CGC.

Authorized investment type:	Maximum maturity:	Maximum percentage of portfolio:*	Maximum investment in one issuer:
Local agency bonds	5 years	None	None
U.S. Treasury obligations	5 years	None	None
U.S. agency securities	5 years	None	None
Banker's acceptances	180 days	40%	30%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposit	5 years	30%	None
Repurchase agreements	1 year	None	None
Reverse repurchase agreements	92 days	20% of base value	None
Medium-term notes	5 years	30%	None
Mutual funds	N/A	20%	10%
Money market mutual funds	N/A	20%	10%
Mortgage pass-through securities	5 years	20%	None
County pooled investment funds	N/A	None	None
LAIF	N/A	None	None
JPA pools (other investment pools)	N/A	None	None

* Excluding amounts held by bond trustee that are not subject to CGC restrictions.

Note 4: Patient and Resident Accounts Receivable

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

	2024	2023
Patient and resident accounts receivable	$ 17,581,751	$ 11,988,701
Less:		
Contractual adjustments	8,193,206	2,972,097
Allowance for doubtful accounts	2,703,295	2,373,240
Patient and resident accounts receivable - Net	$ 6,685,250	$ 6,643,364

Note 5: Net Patient and Resident Service Revenue

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

	2024	2023
Gross patient and resident service revenue:		
Hospital inpatient services	$ 6,845,363	$ 6,443,341
Hospital outpatient services	31,474,469	29,494,284
Nursing home services	9,719,920	8,933,800
Clinic services	4,256,249	4,586,911
Total gross patient and resident service revenue	52,296,001	49,458,336
Revenue reductions:		
Contractual allowances	7,336,694	12,121,183
Provision for bad debt	2,382,688	(198,348)
Total revenue deductions	9,719,382	11,922,835
Net patient and resident service revenue	$ 42,576,619	$ 37,535,501

Approximately 83% of gross patient service and resident revenue was from participation in Medicare and Medi-Cal programs for the year ended June 30, 2024. Approximately 88% of gross patient service and resident revenue was from participation in Medicare and Medi-Cal programs, for the year ended June 30, 2023.

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 $2,430,862 and $11,042,988 in IGT receipts for the years ended June 30, 2024 and 2023, 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.

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 $22,774 and nil for the years ended June 30, 2024 and 2023, respectively.

Note 7: Investments and Assets Limited as to Use

Investments and Assets limited as to use consisted of the following at June 30:

	2024	2023
Investments - Money market deposit funds	$ 5,148,013	$ 8,001,113
Assets limited as to use:		
US Treasury obligations	30,057,894	26,275,111
Cash and cash equivalents	1,204,083	685,565
Certificates of deposit	-	323,307
Totals	$ 36,409,990	$ 35,285,096

During the year ended June 30, 2023, Board of Directors approved the transfer of money from LAIF to U.S. Treasury bills.

Note 8: Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value:

US Treasury securities: Valued at the closing price for identical assets traded on active markets.

Certificates of deposit: Valued at amortized cost, which approximates fair value.

Money market funds: Valued using net asset value (NAV) of $1.

The District's investments by level within the fair value hierarchy were as follows at June 30:

	Fair Value of Assets as of June 30, 2024			
	Level 1	Level 2	Level 3	Total
Money market	$ 5,148,013	$ -	$ -	$ 5,148,013
US Treasury securities	30,057,894	-	-	30,057,894
Subtotal - Investments				35,205,907
Cash and cash equivalents				1,204,083
Total investments and assets limited as to use				$ 36,409,990

	Fair Value of Assets as of June 30, 2023			
	Level 1	Level 2	Level 3	Total
Certificates of deposit	$ -	$ 323,307	$ -	$ 323,307
Money market	8,001,113	-	-	8,001,113
US Treasury securities	26,275,111	-	-	26,275,111
Subtotal - Investments				34,599,531
Cash and cash equivalents				685,565
Total investments and assets limited as to use	$ 34,276,224	$ 323,307	$ -	$ 35,285,096

Note 9: Capital Assets

Capital assets consisted of the following:

	Balance July 1, 2023	Additions	Retirements	Transfers	Balance June 30, 2024
Nondepreciable capital assets:					
Land	$ 713,540	$ -	$ -	$ -	$ 713,540
Construction in progress	6,774,767	13,870,692	-	(361,348)	20,284,111
Total nondepreciable capital assets	7,488,307	13,870,692	-	(361,348)	20,997,651
Depreciable capital assets:					
Land improvements	355,853	-	-	-	355,853
Buildings and improvements	46,970,134	-	-	-	46,970,134
Equipment	10,776,847	-	-	306,359	11,083,206
Software	1,838,438	-	-	-	1,838,438
subscription-based assets	-	1,240,392	-	54,989	1,295,381
Total depreciable capital assets	59,941,272	1,240,392	-	361,348	61,543,012
Total capital assets before depreciation	67,429,579	15,111,084	-	-	82,540,663
Accumulated depreciation	(16,739,045)	(2,094,276)	-	-	(18,833,321)
Accumulated amortization on SBITAs	-	(418,173)	-	-	(418,173)
Total accumulated depreciation and amortization.	(16,739,045)	(2,512,449)	-	-	(19,251,494)
Depreciable capital assets - Net	43,202,227	(1,272,057)	-	361,348	42,291,518
Capital assets - Net	$ 77,153,716	$ 9,232,302	$ -	$ 361,348	$ 86,747,366

Note 9: Capital Assets (Continued)

	Balance July 1, 2022	Additions	Retirements	Transfers	Balance June 30, 2023
Nondepreciable capital assets:					
Land	$ 713,540	$ -	$ -	$ -	$ 713,540
Construction in progress	3,055,519	4,367,258	-	(648,010)	6,774,767
Total nondepreciable capital assets	3,769,059	4,367,258	-	(648,010)	7,488,307
Depreciable capital assets:					
Land improvements	337,653	-	-	18,200	355,853
Buildings and improvements	46,823,958	-	-	146,176	46,970,134
Major movable equipment	10,306,662	-	-	470,185	10,776,847
Software	1,824,989	-	-	13,449	1,838,438
Total depreciable capital assets	59,293,262	-	-	648,010	59,941,272
Total capital assets before depreciation	63,062,321	4,367,258	-	-	67,429,579
Accumulated depreciation	(14,644,623)	(2,094,422)	-	-	(16,739,045)
Depreciable capital assets - Net	44,648,639	(2,094,422)	-	648,010	43,202,227
Capital assets - Net	$ 48,417,698	$ 2,272,836	$ -	$ -	$ 50,690,534

At June 30, 2024 construction in progress consisted primarily of the SNF building project and various other improvement projects. The estimated total costs to complete the SNF building project is approximately $61,800,000 and is expected to be completed in June 2025.

Note 10: Long-Term Debt

Long-term debt consisted of the following:

	July 1, 2023	Additions	Reductions	June 30, 2024	Amounts Due Within One Year
Direct Borrowings - USDA loan	$ 33,645,000	$ -	$ (525,000)	$ 33,120,000	$ 539,000

	July 1, 2022	Additions	Reductions	June 30, 2023	Amounts Due Within One Year
Direct Borrowings - USDA loan	$ 34,155,000	$ -	$ (510,000)	$ 33,645,000	$ 525,000

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

Years Ending June 30,	Principal	Interest	Total
2025	$ 539,000	$ 950,250	$ 1,489,250
2026	554,000	935,250	1,489,250
2027	572,000	917,250	1,489,250
2028	587,000	902,250	1,489,250
2029	605,000	884,250	1,489,250
2030 - 2034	3,289,000	4,157,250	7,446,250
2035 - 2039	3,790,000	3,656,250	7,446,250
2040 - 2044	4,367,000	3,079,250	7,446,250
2045 - 2049	5,032,000	2,414,250	7,446,250
2050 - 2054	5,801,000	1,645,250	7,446,250
2055 - 2059	6,685,000	761,250	7,446,250
2060 - 2064	1,299,000	190,250	1,489,250
Totals	$ 33,120,000	$ 20,493,000	$ 53,613,000

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 during the year ended June 30, 2020, and $273,000 to $342,000 through maturity during the year ending June 30, 2060, plus interest at a rate of 2.875% per annum, and 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 11: Subscription-Based Information Technology Arrangements.

Changes in subscription-based technology arrangements consisted of the following for the year ended June 30, 2024:

	July 1, 2023	Additions	Reductions	June 30, 2024	Amounts Due Within One Year
Cerner EHR	$ -	$ 1,251,091	$ (454,448)	$ 796,643	$ 633,275

The terms of the District's subscription-based information technology arrangements are as follows:

- Cerner Electronic Medical Records - SBITA in the original amount of $4,688,499, due in varying monthly installments of $54,685, including imputed interest at 0.41%, through June 2032.

Future Minimum Payments,	Principal	Interest	Total
2025	$ 633,275	$ 22,945	$ 656,220
2026	163,368	687	164,055
Totals	$ 796,643	$ 23,632	$ 820,275

Note 12: 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, 2024 and 2023, were approximately $604,000 and $591,000, respectively.

Note 13: 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 five prior fiscal years.

Under a claims-made policy, the risk for claims and incidentals not asserted within the policy period remains with the District. Although there exists the possibility of claims arising from services provided to patients through June 30, 2024, which have not yet been asserted, the District is unable to determine the ultimate cost, if any, of such possible claims and, accordingly, no provision has been made for them. These insurance policies are renewable annually and have been renewed by the insurance carrier for the annual period extending through July 1, 2025.

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, 2024 and 2023, was $234,757 and $173,300, respectively.

Note 14: 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:

	2024	2023
Medicare	27 %	27 %
Medi-Cal	40 %	26 %
Other third-party payors	15 %	19 %
Patients	18 %	28 %
Totals	100 %	100 %

Note 15: Reclassifications

Certain reclassifications have been made to the 2023 financial statements to conform to the 2024 classifications. Such reclassifications had no effect on the previously reported amounts of net position.

Supplementary Information

Last Frontier Healthcare District

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2024

Federal Grantor/Program Title	Contract Number	Entity Passed Through	Federal Assistance Listing Number	Federal Expenditures
U.S. Department of Agriculture Rural Development:				
Community Facilities Loans and Grants Cluster:				
Community Facilities Loans and Grants	N/A	Direct	10.766	$ 33,645,000
Total expenditures of federal awards				$ 33,645,000

See Independent Auditor's Report.

See accompanying notes to schedule of expenditures of federal awards.

Last Frontier Healthcare District

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2024

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Last Frontier Healthcare District (the "District"). 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* (the "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 position, or cash flows of the District.

Note 2: Summary of Significant Accounting Policies

Expenditures on the Schedule are reported on the accrual basis of accounting and 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: Indirect Cost

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

Note 4: Subrecipients

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

Note 5: Balance of Outstanding Loan

The District had an outstanding loan with USDA as of June 30, 2024, with a balance of $33,120,000. The loan balance outstanding at the beginning of the year was included in the federal expenditures presented in the Schedule.

WIPFLI

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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Last Frontier Healthcare District, as of and for the year ended June 30, 2024 and the related notes to the financial statements, which collectively comprise the Last Frontier Healthcare District's basic financial statements, and have issued our report thereon dated January 15, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Last Frontier Healthcare 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 Last Frontier Healthcare District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Last Frontier Healthcare 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 reasonable possibility that a material misstatement of the Last Frontier Healthcare District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit 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. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2024-001 that we consider to be a significant deficiency.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Last Frontier Healthcare District's financial statements are free from 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of schedule of findings and questioned costs as item.

Last Frontier Healthcare District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Last Frontier Healthcare District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Last Frontier Healthcare 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 Last Frontier Healthcare District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

Spokane, Washington
January 15, 2025

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Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Last Frontier Healthcare District
Alturas, California

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Last Frontier Healthcare District's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2024. Last Frontier Healthcare District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Last Frontier Healthcare 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, 2024.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Last Frontier Healthcare District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of Last Frontier Healthcare District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Last Frontier Healthcare District’s federal program.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Last Frontier Healthcare District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Last Frontier Healthcare District's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Last Frontier Healthcare District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Last Frontier Healthcare District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Last Frontier Healthcare District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 in internal control over compliance* 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 attention by those charged with governance.

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Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over-compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance 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

Spokane, Washington
January 15, 2025

Last Frontier Healthcare District

Schedule of Findings and Questioned Costs

Year Ended June 30, 2024

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)]?	_x_ yes ___ no

Identification of major federal programs:

Federal Assistance Listing Number	Name of Federal Program or Cluster
10.766	Community Facilities Loans and Grants Cluster

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

Auditee qualified as low-risk auditee? _x_ yes ___ no

Section II - Financial Statement Findings

Finding Number: 2024-001
Type of Finding: Significant deficiency
Description: Financial statement preparation and accompanying note disclosures

Condition: The District relies on the auditor to compile the financial statements and notes. As part of our professional services for the year ended June 30, 2024, we assisted in drafting the basic financial statements and related notes. The District does not have sufficient expertise to prepare its own financial statements and disclosures. This circumstance is not unusual in an organization of the District's size.

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

Cause: The District prepares a set of full-disclosure financial statements only on an annual basis and does not maintain the expertise to prepare full-disclosure financial statements due to cost and other considerations.

Effect: 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 the District's internal finance staff.

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. It is the responsibility of management and those charged with governance to make the decision of whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response: Management agrees with the assessment and has committed to evaluating the costs and benefits associated with preparing the annual financial statements.

Section III - Federal Award Findings

None.

Finding Number: 2023-001
Type of Finding: Significant deficiency
Description: Financial statement preparation and accompanying note disclosures

Condition: The District relies on the auditor to compile the financial statements and notes. As part of our professional services for the year ended June 30, 2023, we assisted in drafting the basic financial statements and related notes. The District does not have sufficient expertise to prepare its own financial statements and disclosures. This circumstance is not unusual in an organization of the District's size.

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

Cause: The District prepares a set of full-disclosure financial statements only on an annual basis and does not maintain the expertise to prepare full-disclosure financial statements due to cost and other considerations.

Effect: 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 the District's internal finance staff.

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. It is the responsibility of management and those charged with governance to make the decision of whether to accept the degree of risk associated with this condition because of cost or other considerations.

Management Response: Management agrees with the assessment and has committed to evaluating the costs and benefits associated with preparing the annual financial statements.

Current Status: Repeated as Finding 2024-001.

Finding Number: 2023-002
Type of Finding: Significant deficiency
Description: Accounts receivable is not properly reviewed by management

Condition: The District does not properly review accounts receivable. Some of the accounting systems used by the District are not able to provide a report that reconciles to the balance as of year end. Also, several of the accounts are not properly supported by documentation.

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

Cause: The District does not properly review accounts receivable.

Effect: The completeness of the financial statement disclosures and the accuracy of the overall financial presentation may be negatively impacted.

Recommendation: We recommend management and those charged with governance continue to evaluate the degree of risk associated with this condition.

Management Response: Management agrees with the assessment and has committed to evaluating the risks of not properly reviewing accounts receivable.

Current Status: Corrected.