Report of Independent Auditors
And Financial Statements

SENECA HEALTHCARE DISTRICT

June 30, 2018 & 2017

JWT & Associates, LLP
Advisory Assurance Tax

SENECA HEALTHCARE DISTRICT

Audited Financial Statements

June 30, 2018 and 2017

JWT & Associates, LLP

Advisory Assurance Tax

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Report of Independent Auditors

The Board of Directors
Seneca Healthcare District
Chester, California

Report on the Financial Statements

We have audited the accompanying financial statements of Seneca Healthcare District (the "District"), which comprise the statement of net position as of June 30, 2018 and 2017, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and in accordance with the State Controller's Minimum Audit Requirements for Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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 the District at June 30, 2018 and 2017, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the 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 financial statements in an appropriate operational, economic, or historical context We have applied certain limited procedures in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing 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.

JWT & Associates, LLP

Fresno, California
November 29, 2018

SENECA HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2018

The management of Seneca Healthcare District (the "District") has prepared the following analysis and discussion of the financial performance of the District for the fiscal year ended June 30, 2018 to accompany the financial statements prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement Number 34. This discussion and the associated schedules are intended to provide an analysis, explanation, and historical basis of comparison for the reporting of financial results of the District for the fiscal year ended June 30, 2018. The audited financial statements included herewith have been prepared and submitted with an unmodified opinion from the District's independent auditor.

Introduction

The District is a public entity organized under Local Hospital District Law as set forth in the Health and
The District is a public entity organized under Local Hospital District Law as set forth in the Health and
Safety Code of the State of California. The District is licensed for 10 hospital beds, 16 distinct-part skilled nursing beds, and a Rural Health Clinic. The hospital operates a 24-hour emergency care service.

The District was established in 1954 with a 10-bed facility in Chester, California. The Rural Health Clinic opened in September 1996. The District is designated as a Critical Access Hospital (CAH). CAH status was granted to the District in September 2007, providing for a favorable impact on the District's finances inasmuch as CAH Medicare reimbursement is 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, 2018 and 2017, the District received property tax revenue of $506,078 and $475,593, 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 employs approximately 107 full-time equivalent employees.

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 comprised of the statements of net position; statements of revenues, expenses, and changes in net position; and statements of 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 health care 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 District 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 revenues and expenses for the years ended June 30, 2018 and 2017 are accounted for in the statements of revenues, expenses, and changes in net position, which can be used to determine whether the District has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenue and expenses are reported on an accrual basis of accounting, which means the related cash could be received or paid in a subsequent period.

The final required statement is the statements of cash flows, which report cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. The statements of cash flows 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 year 2018 ended with an excess of revenues over expenses of $5,567,313. The gain was driven largely by an approximately $6.57 million third-party Intergovernmental Transfer Program (IGT) settlements from the District's two Managed Medi-Cal Providers and other California Medi-Cal programs such as the Public Hospital Redesign and PRIME Grant. The District expended $3.12 million to participate in these programs and therefore realized a net gain of $3.45 million from IGTs.

- The District's income from operations was $4,876,087 in fiscal year 2018 and $2,173,280 in fiscal year 2017. This was another successive increase as the fiscal year 2016 had net income from operations of $1,138,272.

- During fiscal years 2018, 2017, and 2016, the increase in net position totaled $2,446,403, $1,164,370, and $1,295,126, 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 them. The District's net position is the difference between total assets and total liabilities and is a way to measure financial health. Over time, sustained increases or decreases in net position are one indicator of whether the District's financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population changes, and new or revised governmental regulations and legislation should also be considered.

Condensed Statements of Net Position
June 30, 2018, 2017, and 2016
(In Thousands)

				Change	
	2018	2017	2016	2018-2017	2017-2016
Current assets	$ 6,884	$ 4,683	$ 4,409	$ 2,201	$ 274
Other assets, limited use	1,017	1,011	508	6	503
Capital assets, net	2,005	1,707	1,697	298	10
Total assets	$ 9,906	$ 7,401	$ 6,614	$ 2,505	$ 787
Current liabilities	$ 1,209	$ 1,104	$ 1,177	$ 105	$ (73)
Noncurrent liabilities	148	194	498	(46)	(304)
Total liabilities	1,566	1,298	1,675	59	(377)
Net position:					
Net investment - capital assets	1,717	1,274	927	443	347
Unrestricted	6,832	4,829	4,012	2,003	817
Total net position	8,549	6,103	4,939	2,446	1,164
Total liabilities and net position	$ 9,906	$ 7,401	$ 6,614	$ 2,505	$ 787

- Current assets increased by $2,505,000 and $274,000 in fiscal years 2018 and 2017, respectively. The increase in current assets was comprised almost entirely of the change in cash and cash equivalents due to the current year profit, less the IGT payments.

- Other assets consist of assets whose use is limited by board-designation, though these assets are cash accounts and could be considered current assets as well.

Financial Analysis of the District (Continued)

Condensed Statements of Revenues, Expenses, and Changes in Net Position
June 30, 2018, 2017, and 2016
(In Thousands)

				Change	
	2018	2017	2016	2018-2017	2017-2016
Operating revenue:					
Net patient service revenue	$ 18,611	$ 15,093	$ 16,111	$ 3,518	$ (1,018)
Other operating revenue	2,627	2,302	658	325	1,644
Total revenue	21,238	17,395	16,769	3,843	626
Operating expenses:					
Salaries and wages	6,254	5,258	5,275	996	(17)
Employee benefits	1,454	1,290	1,432	164	(142)
Professional fees & purchased service	6,138	6,271	6,289	(133)	(18)
Supplies	1,001	977	996	24	(19)
Insurance	139	130	125	9	5
Other operating expenses	1,062	1,075	1,300	(13)	(225)
Depreciation	314	221	214	93	7
Total expenses	16,362	15,222	15,631	1,140	(409)
Gain from operations	4,876	2,173	1,138	2,703	1,035
Non-operating revenue, net	691	654	753	37	(99)
Excess of revenue over expense	5,567	2,827	1,891	2,740	936
Inter-governmental transfers	(3,121)	(1,663)	(596)	(1,458)	(1.067)
Net position – Beginning of year	6,103	4,939	3,644	1,164	1,295
Net position – End of year	$ 8,549	$ 6,103	$ 4,939	$ 2,446	$ 1,164

- Net patient service revenue increased 23.3% in fiscal year 2018. The increase was primarily due to a significant increase in the supplemental payments from the two Medi-Cal managed care program payers ($2.53 million), HQAF and other quality-based payments ($383K), and the estimated Medicare cost report settlement ($400K). Gross patient revenue was essentially unchanged from fiscal year 2017 to 2018.

Financial Analysis of the District (Continued)

- Salaries and benefits cost continue to increase, due to increases in employees' salaries, decrease in use of registry staffing/increase in employee FTEs, and rising insurance costs. As the District continues to place permanent employees in these positions, and other open positions, salaries and benefits expense will increase.

- Total operating expenses increased by 7.5% compared to the previous year's decrease of 2.6%. This increase represented a negative budget variance of 3.0% as the District had budgeted for a 4.4% increase based off of historical averages and organizational needs.

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 health care 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, Medi-Cal, and third-party payer programs continue to look for ways to decrease reimbursement.

- Physician recruitment: Recruiting and retaining physicians poses a significant challenge for all rural hospitals. The ability to do this effectively is a crucial piece of a rural hospital's success and viability.

- Labor: Nursing and technical positions continue to be difficult to recruit and retain with a focus to remain on competitive salaries and the scheduled annual minimum wage increases in California.

- Seismic building compliance: The state of California has imposed hospital seismic safety standards that we must meet by January 1, 2030.

In summary, the external environment continues to challenge hospitals, small rural hospitals in particular, with continuing declines in reimbursement, 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 financial performance.

Contacting the District's Financial 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:

Seneca Healthcare District
130 Brentwood Drive
P.O. Box 737
Chester, CA 96020

Seneca Healthcare District

Statements of Net Position

June 30, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 4,886,265	$ 3,046,150
Patient accounts receivable, net of allowances	1,339,749	1,228,351
Other receivables	164,513	66,558
Third-party payor settlements	191,171	-
Supplies	271,364	289,935
Prepaid expenses and deposits	31,051	51,730
Total current assets	6,884,113	4,682,724
Assets whose use is limited, less current portion	1,017,218	1,011,177
Capital assets, net of accumulated depreciation	2,004,722	1,706,735
Total assets	9,906,053	7,400,636
Liabilities and Net Position		
Current liabilities		
Current maturities of long-term debt	$ 139,086	$ 239,075
Accounts payable and accrued expenses	598,599	468,248
Accrued payroll and related liabilities	470,965	349,249
Third-party payor settlements	-	47,000
Total current liabilities	1,208,650	1,103,572
Long-term debt, net of current maturities	148,066	194,130
Total liabilities	1,356,716	1,297,702
Net position		
Invested in capital assets, net of related debt	1,717,570	1,273,530
Unrestricted	6,831,767	4,829,404
Total net position	8,549,337	6,102,934
Total liabilities and net position	$ 9,906,053	$ 7,400,636

See accompanying notes to the financial statements

Seneca Healthcare District

Statements of Revenues, Expenses and Changes in Net position

For The Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues		
Net patient service revenue	$ 18,610,917	$ 15,093,531
Other operating revenue	2,626,985	2,301,891
Total operating revenues	21,237,902	17,395,422
Operating expenses		
Salaries & wages	6,253,979	5,258,476
Employee benefits	1,454,009	1,290,014
Professional Fees	4,597,489	4,698,806
Purchased services	1,540,215	1,571,746
Supplies	1,001,398	977,238
Repairs & maintenance	229,190	297,766
Utilities	438,202	439,499
Rentals and leases	153,687	129,215
Insurance	139,012	129,981
Depreciation & amortization	314,184	221,336
Other operating expenses	240,450	208,065
Total operating expenses	16,361,815	15,222,142
Operating income	4,876,087	2,173,280
Nonoperating revenues (expenses)		
District tax revenues	506,078	475,593
Non-capital grants and donations	179,679	180,515
Investment income	21,136	18,006
Interest expense	(15,667)	(30,761)
Other non-operating income (expense)	-	11,000
Total nonoperating revenues (expenses)	691,226	654,353
Excess of revenues (expenses)	5,567,313	2,827,633
Inter-governmental transfers	(3,120,910)	(1,663,263)
Increase (decrease) in net position	2,446,403	1,164,370
Net position, beginning of the year	6,102,934	4,938,564
Net position, end of year	$ 8,549,337	$ 6,102,934

See accompanying notes to the financial statements

Seneca Healthcare District

Statements of Cash Flows

For The Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash received from patients and third-party payers	$ 18,261,348	$ 16,249,881
Other receipts	2,529,030	2,317,234
Cash payments to suppliers and contractors	(8,170,042)	(8,528,411)
Cash payments to employees and benefit programs	(7,586,272)	(6,540,602)
Net cash provided by operating activities	5,034,064	3,498,102
Cash flows from non-capital and related financing activities		
District tax revenue	506,078	475,593
Non-capital grants and donations	179,679	180,515
Other non-operating revenue	-	38,853
Inter-governmental transfers	(3,120,910)	(1,663,263)
Net cash used in non-capital and related financing activities	(2,435,153)	(968,302)
Cash flows from capital and related financing activities		
Purchase of property, plant & equipment	(612,171)	(258,734)
Proceeds from debt borrowings	286,672	-
Payments of long-term debt	(432,725)	(336,733)
Interest paid on capital debt	(15,667)	(30,761)
Net cash used in capital and related financing activities	(773,891)	(626,228)
Cash flows from investing activities		
Net change in assets limited as to use	(6,041)	(503,307)
Investment income	21,136	18,006
Net cash provided by (used in) investing activities	15,095	(485,301)
Increase in cash and cash equivalents	1,840,115	1,418,271
Cash and cash equivalents at beginning of year	3,046,150	1,627,879
Cash and cash equivalents at end of year	$ 4,886,265	$ 3,046,150

See accompanying notes to the financial statements

Seneca Healthcare District

Statements of Cash Flows (continued)

For The Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of income from operations to net cash provided by operating activities		
Operating income	$ 4,876,087	$ 2,173,280
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	314,184	221,336
Changes in operating assets and liabilities		
Patient accounts receivable	(111,398)	207,491
Other receivables	(97,955)	15,343
Supplies	18,571	23,729
Prepaid expenses	20,679	(4,366)
Accounts payable and accrued expenses	130,351	(95,458)
Accrued payroll and related expenses	121,716	7,888
Third-party payor settlements	(238,171)	948,859
Net cash provided by operating activities	$ 5,034,064	$ 3,498,102

See accompanying notes to the financial statements

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES

Reporting Entity: Seneca Health Care District (the "District") is a public entity organized under Local Hospital District Law as set forth in the Health and Safety Code of the State of California. The District is a political subdivision of the State of California and is generally not subject to federal or state income taxes. The District is governed by a five-member Board of Directors, elected from within the district to specified terms of office. The District is located in Chester, California and operates Seneca Hospital (the "Hospital"), a 10 bed acute care hospital and a 16 bed skilled nursing facility. The District's mission is to provide health care services primarily to individuals who reside in the community of Chester, California and the surrounding area. The accompanying financial statements include all of the operating entities of the District.

Basis of Preparation: The accounting policies and financial statements of the District generally conform with the recommendations of the audit and accounting guide, *Health Care Organizations*, published by the American Institute of Certified Public Accountants. The financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of presentation, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operational revenues and expenses.

The District uses proprietary fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Government Accounting Standard Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board ("FASB") and AICPA Pronouncements,* the District's proprietary fund accounting and financial reporting practices are based on all applicable GASB pronouncements as well as codified pronouncements issued on or before November 30, 1989. The District has elected to apply the provisions of all relevant pronouncements as the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Financial Statement Presentation: The District applies the provisions of GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (Statement 34), as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement 38, *Certain Financial Statement Note Disclosures*. Statement 34 established financial reporting standards for all state and local governments and related entities. Statement 34 primarily relates to presentation and disclosure requirements. The impact of this change was related to the format of the financial statements; the inclusion of management's discussion and analysis; and the preparation of the statement of cash flows on the direct method. The application of these accounting standards had no impact on the total net assets.

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Management's Discussion and Analysis: Statement 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of organizations in the private sector.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Investments: The District considers cash and cash equivalents to include certain investments in highly liquid debt instruments, when present, with an original maturity of a short-term nature or subject to withdrawal upon request. Exceptions are for those investments which are intended to be continuously invested. Investments in debt securities are reported at market value. Interest, dividends and both unrealized and realized gains and losses on investments are included as investment income in non-operating revenues when earned.

Patient Accounts Receivable: Patient accounts receivable consist of amounts owed by various governmental agencies, insurance companies and private patients. The District manages its receivables by regularly reviewing the accounts, inquiring with respective payors as to collectability and providing for allowances on their accounting records for estimated contractual adjustments and uncollectible accounts. Significant concentrations of patient accounts receivable are discussed further in the footnotes.

Supplies: Inventories are consistently reported from year to year at cost determined by average costs and replacement values which are not in excess of market. The District does not maintain levels of inventory values such as those under a first-in, first out or last-in, first out method.

Assets Limited as to Use: Assets limited as to use include amounts designated by the Board of Directors for replacement or purchases of capital assets and other specific purposes. Assets limited as to use consist primarily of deposits on hand with banking and investment institutions.

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Capital Assets: Capital assets consist of property and equipment and are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 10 to 30 years for buildings and improvements, and 3 to 10 years for equipment. The District periodically reviews its capital assets for value impairment. As of June 30, 2018 and 2017, the District has determined that no capital assets are impaired.

Net Position: Net position (formally net assets) is presented in three categories. The first category is net position "invested in capital assets, net of related debt". This category of net position consists of capital assets (both restricted and unrestricted), net of accumulated depreciation and reduced by the outstanding principal balances of any debt borrowings that were attributable to the acquisition, construction, or improvement of those capital assets.

The second category is "restricted" net position. This category consists of externally designated constraints placed on assets by creditors (such as through debt covenants), grantors, contributors, law or regulations of other governments or government agencies, or law or constitutional provisions or enabling legislation.

The third category is "unrestricted" net position. This category consists of net assets that do not meet the definition or criteria of the previous two categories.

Compensated Absences: The District's employees earn vacation benefits at varying rates. These rates are determined based on the employee's years of service. Employees also earn sick leave benefits based on varying rates depending on years of service. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits if they leave either upon termination or before retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities as of June 30, 2018 and 2017 are $321,229 and $264,149, respectively.

Net Patient Service Revenues: Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third-party payors and others including estimated retroactive adjustments under reimbursement agreements with third-party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Charity Care: The District accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the District. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off entirely as an adjustment to net patient service revenues.

District Tax Revenues: The District receives financial support from property taxes. These funds are used to support operations and meet required debt service agreements. They are classified as non-operating revenue as the revenue is not directly linked to patient care. Property taxes are levied by the County on the Hospital's behalf during the year, and are intended to help finance the Hospital's activities during the same year. Amounts are levied on the basis of the most current property values on record with the County. The County has established certain dates to levy, lien, mail bills, and receive payments from property owners during the year. Property taxes are considered delinquent on the day following each payment due date.

Grants and Contributions: From time to time, the District receives grants from various governmental agencies and private organizations. The District also receives contributions from related foundation and auxiliary organizations, as well as from individuals and other private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or capital acquisitions. These amounts, when recognized upon meeting all requirements, are reported as components of the statement of revenues, expenses and changes in net position.

Operating Revenues and Expenses: The District's statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the District's principal activity. Operating expenses are all expenses incurred to provide health care services, other than financing costs. Non-operating revenues and expenses are those transactions not considered directly linked to providing health care services.

Risk Management: The District is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters.

***Subsequent events*:** Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Reclassifications: Certain financial statement amounts as presented in the prior year financial statements have been reclassified in these, the current year financial statements, in order to conform to the current year financial statement presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2018 and 2017, the District had deposits in various financial institutions in the form of cash and cash equivalents amounting to $5,906,187 and $4,060,180. All of these funds were held in deposits, which are collateralized in accordance with the California Government Code (CGC), except for $250,000 per account that is federally insured.

Under the provisions of the CGC, California banks and savings and loan associations are required to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the District's deposits. California law also allows financial institutions to secure Hospital deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total deposits. The pledged securities are held by the pledging financial institution's trust department in the name of the District.

NOTE 3 - NET PATIENT SERVICE REVENUES AND REIMBURSEMENT PROGRAMS

The District renders services to patients under contractual arrangements with the Medicare and Medi-Cal programs, health maintenance organizations (HMOs) and preferred provider organizations (PPOs). Patient service revenues from these programs approximate 95% of gross patient service revenues for the years ended June 30, 2018 and 2017.

The Medicare Program reimburses the District on a cost basis payment system for inpatient and outpatient hospital services. The cost based reimbursement is determined based on filed Medicare cost reports. Skilled nursing services are reimbursed on a predetermined amounts based on the Medicare rates for the services.

The District contracts to provide services to Medi-Cal, HMO and PPO inpatients on negotiated rates. Certain outpatient reimbursement is subject to a schedule of maximum allowable charges for Medi-Cal and to a percentage discount for HMOs and PPOs. The skilled nursing facility (SNF) is reimbursed by the Medi-Cal program on a prospective per diem basis subject to audit by the state. The results of the state audits are incorporated prospectively and are subject to appeal by the provider.

NOTE 3 - NET PATIENT SERVICE REVENUES AND REIMBURSEMENT PROGRAMS (continued)

Both the Medicare and Medi-Cal program's administrative procedures preclude final determination of amounts due to the District for services to program patients until after patients' medical records are reviewed and cost reports are audited or otherwise reviewed by and settled with the respective administrative agencies. The Medicare and Medi-Cal cost reports are subject to audit and possible adjustment. Management is of the opinion that no significant adverse adjustment to the recorded settlement amounts will be required upon final settlement.

Medicare and Medi-Cal revenue accounted for approximately 62%, for the year ended June 30, 2018, and 60%, for the year ended June 30, 2017, of the District's net patient revenues. Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE 4 - INVESTMENTS

The District's investment balances and average maturities were as follows at June 30, 2018 and 2017:

2018		Investment Maturities in Years		
	Fair Value	Less than 1	1 to 5	Over 5
Government investment funds	$ 517,218	$ 517,218	$ -	$ -
Money market accounts	2,285,509	2,285,509	-	-
U. S. government obligations	52,056	-	-	52,056
Total investments	$ 2,854,783	$ 2,802,727	$ -	$ 52,056

2017		Investment Maturities in Years		
	Fair Value	Less than 1	1 to 5	Over 5
Government investment funds	$ 511,177	$ 511,177	$ -	$ -
Money market accounts	2,948,283	2,948,283	-	-
U. S. government obligations	50,040	-	-	50,040
Total investments	$ 3,509,500	$ 3,459,460	$ -	$ 50,040

NOTE 4 – INVESTMENTS (continued)

The District's investments are reported at fair value as previously discussed. The District's investment policy allows for various forms of investments generally set to mature within a few months to others over 15 years. The policy identifies certain provisions which address interest rate risk, credit risk and concentration of credit risk.

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. The District's exposure to interest rate risk is minimal as 98% of their investments have a maturity of less than one year. The remaining investments are over 5 years, but are U.S. government obligations with fixed return rates. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the preceding schedules that shows the distribution of the District's investments by maturity.

Credit Risk: Credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization, such as Moody's Investor Service, Inc. The District's investments in such obligations are in U.S. government obligations. The District believes that there is minimal credit risk with these obligations at this time.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer), the District will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The District's investments are generally held by banks or government agencies. The District believes that there is minimal custodial credit risk with their investments at this time. District management monitors the entities which hold the various investments to ensure they remain in good standing.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investments are held as follows: governmental agencies 20% and banks 80%. The District believes that there is minimal custodial credit risk with their investments at this time. District management monitors the entities which hold the various investments to ensure they remain in good standing.

NOTE 5 - ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2018 and 2017 were comprised of cash and cash equivalents designated by the board for specific purposes. Interest income, dividends, and both realized and unrealized gains and losses on investments are recorded as investment income. These amounts were $21,136 and $18,006 for the years ended June 30, 2018 and 2017, respectively. Total investment income includes both income from operating cash and cash equivalents and cash and cash equivalents related to assets limited as to use. Debt securities, when present, are recorded at market price or the fair market value as of the date of each balance sheet.

NOTE 6 - CONCENTRATION OF CREDIT RISK

The District grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the District and management does not believe that there is any credit risk associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors including individuals involved in diverse activities, subject to differing economic conditions and do not represent any concentrated credit risks to the District. Concentration of patient accounts receivable at June 30, 2018 and 2017 were as follows:

	2018	2017
Medicare	$ 1,094,897	$ 1,006,890
Medi-Cal and Medi-Cal pending	860,052	832,978
Other third party payors	925,745	1,025,970
Self pay and other	810,563	886,275
Gross patient accounts receivable	3,691,257	3,752,113
Less allowances for contractual adjustments and bad debts	(2,351,508)	(2,523,762)
Net patient accounts receivable	$ 1,339,749	$ 1,228,351

NOTE 7 - OTHER RECEIVABLES

Other receivables as of June 30, 2018 and 2017 were comprised of the following:

	2018	2017
District Taxes receivable	$ 38,366	$ 35,110
Contract pharmacy	35,178	29,609
Grant receivable	90,740	-
Other	229	1,839
	$ 164,513	$ 66,558

NOTE 8 - CAPITAL ASSETS

Capital assets as of June 30, 2018 and 2017 were comprised of the following:

	Balance at June 30, 2017	Transfers & Additions	Transfers & Retirements	Balance at June 30, 2018
Land and land improvements	$ 90,610	$ -	$ -	$ 90,610
Buildings and improvements	5,474,869	-	-	5,474,869
Equipment	4,368,480	555,964	(429,286)	4,495,158
Construction-in-progress	-	56,207	-	56,207
Totals at historical cost	9,933,959	$ 612,171	$ (429,286)	10,116,844
Less accumulated depreciation	(8,227,224)	$ (314,184)	$ 429,286	(8,112,122)
Capital assets, net	$ 1,706,735			$ 2,004,722

NOTE 8 - CAPITAL ASSETS (continued)

	Balance at June 30, 2016	Transfers & Additions	Transfers & Retirements	Balance at June 30, 2017
Land and land improvements	$ 90,610	$ -	$ -	$ 90,610
Buildings and improvements	5,474,869	-	-	5,474,869
Equipment	4,324,776	258,734	(215,030)	4,368,480
Construction-in-progress	27,853	-	(27,853)	-
Totals at historical cost	9,918,108	$ 258,734	$ (242,883)	9,933,959
Less accumulated depreciation	(8,220,918)	$ (221,336)	$ 215,030	(8,227,224)
Capital assets, net	$ 1,697,190			$ 1,706,735

NOTE 9 - RETIREMENT PLAN

The District has a non-contributory money purchase plan covering all eligible employees. Participants must have completed one year of service and be at least 19 years old to be eligible. The District's pension expense for the plan was $44,550 during the year ended June 30, 2018 and $43,852 during the year ended June 30, 2017.

NOTE 10 – INCOME TAXES

The District is a political subdivision of the state of California organized under the Local Health Care District Law as set forth in the Health and Safety Code of the State of California. The District has been determined to be exempt from income taxes under Local Health Care District Law. Accordingly, no provision for income taxes is included in the accompanying financial statements. The tax years of 2016 through 2018 remain open and subject to examination by the appropriate government agencies in the United States and California

NOTE 11 - DEBT BORROWINGS

Long-Term debt at June 30, 2018 and 2017 consists of the following:

	2018	2017
Note payable to CHFFA (HELP II Loan), original amount of $387,890, bearing interest at 2.75%, principal and interest payable monthly in the amount of $5,179, maturing in May 2020, secured by patient accounts receivable.	$ 7,070	$ 130,504
Note payable to CHFFA (HELP II Loan), original amount of $400,000, bearing interest at 3.00%, principal and interest payable monthly in the amount of $7,187, maturing in March 2020, secured by patient accounts receivable.	53,313	193,181
Note payable to a finance company, original amount of $172,672, bearing interest at 5.632%, principal and interest payable monthly in the amount of $2,492, maturing in August 2024, secured by equipment.	155,519	-
Note payable to a finance company, original amount of $114,000, non-interest bearing, principal payable monthly in the amount of $4,750, maturing in August 2019, secured by equipment.	71,250	-
Note payable to PG&E, original amount of $70,258, bearing interest at 0.0%, principal payable monthly in the amount of $2,423, maturing in April 2018, secured by certain assets of the District.	-	24,227
Note payable to a finance company, original amount of $500,081, bearing interest at 5.8%, principal and interest payable monthly in the amount of $9,622, maturing in February 2018, secured by equipment.	-	85,293
Total debt borrowings	287,152	433,205
Less current maturities	(139,086)	(239,075)
Debt borrowings, net of current maturities	$ 148,066	$ 194,130

Future required principal payments under the above long-term debt are as follows: $139,086 in 2019; $37,207 in 2020; $24,284 in 2021; $25,687 in 2022; $27,172 in 2023; and $33,716 thereafter.

NOTE 12- CHARITY CARE AND COMMUNITY BENEFIT EXPENSE

The District maintains records to identify and monitor the level of charity care and community service it provides. These records include: the amount of charges foregone, (based on established rates), for services and supplies furnished under its charity care and community service policies, the estimated cost of those services and supplies, and statistics quantifying the level of charity care as a percentage of expenses of the Hospital as a whole.

The following is a summary of the District's charity care and community benefit expense for the years ended June 30, 2018 and 2017, in terms of services to the poor and benefits to the broader community:

	2018	2017
Benefits for the poor		
Traditional charity care and related programs	$ 56,951	$ 54,993
Total quantifiable benefits for the poor	56,951	54,993
Benefits for the broader community:		
Unpaid Medicare program charges	5,922,538	6,091,208
Unpaid MediCal program charges	692,216	1,787,943
Total quantifiable benefits for the broader community	6,614,754	7,879,151
Total quantifiable community benefits	$ 6,671,705	$ 7,934,144

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2018, and 2017, the District had recorded $56,208 and $0, respectively, as construction-in-progress representing cost capitalized for various projects. The estimated amount to complete current obligated construction-in-process projects totals $10,000 as of June 30, 2018.

Operating Leases: The District leases various pieces of equipment under operating leases expiring at various dates. Total equipment lease and rent expense for the years ended June 30, 2018 and 2017, were $139,012 and $129,215, respectively. Future minimum lease payments for the succeeding years under operating leases with a remaining term in excess of one year as of June 30, 2018 are not considered significant.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (continued)

Litigation: The District may from time-to-time be involved in litigation and regulatory investigations which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2018 will be resolved without material adverse effect on the District's future financial position, results from operations or cash flows.

Workers Compensation Program: The District is a participant in the Association of California Hospital District's ALPHA Fund which administers a self-insured worker's compensation plan for participating hospital employees of its member hospitals. The District pays premiums to the ALPHA Fund which are adjusted annually. If participation in the ALPHA Fund is terminated by the District, the District would be liable for its share of any additional premiums necessary for final disposition of all claims and losses covered by the ALPHA Fund.

Health Insurance Portability and Accountability Act: The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management continues to evaluate the impact of this legislation on its operations including future financial commitments that will be required.

Health Care Reform: The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statues and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material regulatory inquiries have been made, 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.