

Report of Independent Auditors
And Financial Statements

SENECA HEALTHCARE DISTRICT

June 30, 2022 & 2021

JWT & Associates, LLP
Advisory Assurance Tax

SENECA HEALTHCARE DISTRICT

Audited Financial Statements

June 30, 2022 and 2021

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Report of Independent Auditors

The Board of Directors
Seneca Healthcare District
Chester, California

Report on the Audit of the Financial Statements Opinion

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of Seneca Healthcare District (the District), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and fiduciary activities of the District, as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audit 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. 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 the District, and to meet our other ethical responsibilities, in accordance with the 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 audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 the 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 generally accepted auditing standards 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 generally accepted auditing standards 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 the 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 the 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis of Matter

As discussed in Note 1, the District adopted GASB 87 for the year beginning July 1, 2021 and ending June 30, 2022. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 29, 2022, 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 the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control over financial reporting and compliance.

JWT & Associates, LLP

Fresno, California
December 29, 2022

SENECA HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2022

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, 2022 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, 2022. 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 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, 2022 and 2021, the District received property tax revenue of \$611,543 and \$585,734, 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 101 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.

SENECA HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2022

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, 2022 and 2021 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 2022 ended with an excess of revenues over expenses of \$1,383,529 versus a budgeted amount of \$27,573. The positive variance to budget was driven largely by the recognition of the Paycheck Protection Program (PPP) loan forgiveness in the amount of \$1,508,168 and the receipt of unbudgeted Quality Improvement Program (QIP) funds in the amount of \$429,153. These amounts were somewhat offset by a negative variance in operating expenses of \$590,413; primarily in the areas of contract labor, professional fees, and provider and staff recruitment.

- The District's income from operations was \$645,073 in fiscal year 2022 and \$4,029,122 in fiscal year 2021. This was a third consecutive year of positive results as fiscal year 2020 had net income from operations of \$1,784,668.
- During fiscal years 2022, 2021, and 2020, the increase in net position totaled \$543,011, \$2,740,031, and \$856,243, respectively.

SENECA HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2022

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, 2022, 2021, and 2020 (In Thousands)

	2022	2021	2020	Change	
				2022-2021	2021-2020
Current assets	\$16,597	\$16,301	\$15,938	\$ 296	\$ 363
Other assets, limited use	1,126	1,126	1,126	-	-
Capital assets, net	3,096	2,351	2,532	745	(181)
Total assets	\$20,819	\$19,778	\$19,596	\$ 1,041	\$ 182
Current liabilities	\$ 5,106	\$ 4,634	\$ 6,162	\$ 472	\$ (1,528)
Noncurrent liabilities	88	61	1,092	27	(1,031)
Total liabilities	5,194	4,695	7,254	499	(2,559)
Net position:					
Net investment - capital assets	2,925	2,265	2,421	660	(156)
Unrestricted	12,700	12,818	9,921	(118)	2,897
Total net position	15,625	15,083	12,342	542	2,741
Total liabilities and net position	\$20,819	\$19,778	\$19,596	\$ 1,041	\$ 182

- Current assets increased by \$296,000 and \$363,000 in fiscal years 2022 and 2021, respectively. The increase in current assets, in fiscal year 2022, was comprised almost entirely of the increase in cash and cash equivalents, which was somewhat offset by the net decrease in amounts due from supplemental payment programs and other third-party/governmental payors.
- 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.

SENECA HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2022

Financial Analysis of the District (continued)

Condensed Statements of Revenues, Expenses, and Changes in Net Position June 30, 2022, 2021, and 2020 (In Thousands)

	2022	2021	2020	Change	
				2022-2021	2021-2020
Operating revenue:					
Net patient service revenue	\$16,840	\$17,563	\$18,143	\$ (723)	\$ (580)
Other operating revenue	2,745	4,869	1,282	(2,124)	3,587
Total revenue	19,585	22,432	19,425	(2,847)	3,007
Operating expenses:					
Salaries and wages	7,892	7,641	7,216	251	425
Employee benefits	1,533	1,718	1,685	(185)	33
Professional fees & purchased service	6,313	6,133	6,142	180	(9)
Supplies	1,275	1,301	994	(26)	307
Insurance	149	123	146	26	(23)
Other operating expenses	1,330	1,048	1,028	282	20
Depreciation	448	439	430	9	9
Total expenses	18,940	18,403	17,641	537	762
Gain from operations	645	4,029	1,784	(3,384)	2,245
Non-operating revenue, net	738	883	746	(145)	137
Excess of revenue over expense	1,383	4,912	2,530	(3,529)	2,382
Inter-governmental transfers	(840)	(2,172)	(1,674)	1,332	(498)
Net position – Beginning of year	15,082	12,342	11,486	2,740	856
Net position – End of year	\$15,625	\$15,082	\$12,342	\$ 543	\$ 2,740

SENECA HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2022

Financial Analysis of the District (continued)

- Net patient service revenue decreased 4.1% in fiscal year 2022. This decrease was made up of a 7.2% increase in gross patient revenue (\$1.56M) and a 10.5% decrease in net patient revenue as a percentage of gross. Total adjustments to revenue increased 56.8% and was made up of an 8.1% increase in claims-based adjustments (\$643k) and a 41.6% decrease in Medi-Cal supplemental payments (\$1.63M). Other operating revenue decreased \$2.12M due to a decrease in Provider Relief Fund (\$2.54M) and PRIME/QIP program (\$1.51M) payments, which was somewhat offset by the recognition of the Paycheck Protection Program loan forgiveness (\$1.51M).
- Salaries and benefits cost continue to increase, due to the increases in employees' salaries to remain market competitive, and the impact of the increase in California's minimum wage.
- Total operating expenses increased by 2.9% compared to the previous year's increase of 4.3%. This increase represented a negative budget variance of 3.2% as the District had budgeted for a .7% increase based off of historical results, current organizational needs, and the projected continued impact of COVID-19 on operations.

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 small rural hospitals in particular. Where the immediate environment and circumstances uniquely influence the District, these areas are also highlighted in the discussion below:

- COVID-19: Although the District saw an increase in facility-wide patient utilization, during fiscal year 2022, it is still uncertain what the future human and financial impact of COVID-19 will be.
- Physician recruitment: Recruiting and retaining physicians poses a significant challenge for all rural hospitals and doing this effectively is a crucial part of a rural hospital's success and viability.
- Labor: Nursing and technical positions continue to be difficult to recruit for and workforce shortages have been further exacerbated by government mandates surrounding COVID-19, such as mandatory vaccinations for all healthcare workers, and the cost and availability of local housing.
- Seismic building compliance: The state of California has imposed hospital seismic safety standards that we must meet by January 1, 2030.
- Natural Disasters: The impact of wildfires continue to threaten the operations and existence of rural hospitals in Northern California and directly affected the District in the Summer of 2021.

SENECA HEALTHCARE DISTRICT

Management's Discussion and Analysis

June 30, 2022

Items Affecting Operations (continued)

In summary, the current healthcare environment continues to challenge all hospitals, and small rural hospitals in particular, with continuing financial and workforce issues and the unknown future impact of COVID-19. 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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 14,379,332	\$ 13,320,613
Patient accounts receivable, net of allowances	1,128,482	1,114,071
Other receivables	695,827	1,121,687
Third-party payor settlements	-	207,895
Supplies	337,226	325,481
Prepaid expenses and deposits	56,376	211,175
Total current assets	<u>16,597,243</u>	<u>16,300,922</u>
Assets whose use is limited	1,125,525	1,125,525
Right-of-use assets	109,422	-
Capital assets, net of accumulated depreciation	2,986,411	2,351,162
Total assets	<u><u>20,818,601</u></u>	<u><u>19,777,609</u></u>
Liabilities and Net Position		
Current liabilities		
Current maturities of operating lease liability	\$ 55,784	\$ -
Current maturities of long-term debt	27,172	1,533,855
Accounts payable and accrued expenses	2,549,146	2,110,153
Accrued payroll and related liabilities	918,467	807,866
Third-party payor settlements	549,812	-
Deferred revenue	1,005,670	182,661
Total current liabilities	<u>5,106,051</u>	<u>4,634,535</u>
Operating lease liability, net of current maturities	53,638	-
Long-term debt, net of current maturities	33,692	60,865
Total liabilities	<u>5,193,381</u>	<u>4,695,400</u>
Net position		
Invested in capital assets, net of related debt	2,925,547	2,264,610
Unrestricted	12,699,673	12,817,599
Total net position	<u>15,625,220</u>	<u>15,082,209</u>
Total liabilities and net position	<u><u>\$ 20,818,601</u></u>	<u><u>\$ 19,777,609</u></u>

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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues		
Net patient service revenue	\$ 16,839,610	\$ 17,563,121
Other operating revenue	2,745,384	4,869,204
Total operating revenues	<u>19,584,994</u>	<u>22,432,325</u>
Operating expenses		
Salaries & wages	7,892,086	7,641,364
Employee benefits	1,533,368	1,718,055
Professional Fees	4,483,225	4,210,875
Purchased services	1,829,350	1,921,733
Supplies	1,274,559	1,301,230
Repairs & maintenance	220,125	190,819
Utilities	360,798	362,861
Rentals and leases	267,336	174,968
Insurance	148,641	123,308
Depreciation & amortization	448,336	439,144
Other operating expenses	482,097	318,846
Total operating expenses	<u>18,939,921</u>	<u>18,403,203</u>
Operating income	645,073	4,029,122
Nonoperating revenues (expenses)		
District tax revenues	611,543	585,734
Non-capital grants and donations	84,776	221,512
Investment income	42,206	82,143
Interest expense	(12,356)	(6,091)
Other non-operating income (expense)	12,287	-
Total nonoperating revenues (expenses)	<u>738,456</u>	<u>883,298</u>
Excess of revenues over expenses	<u>1,383,529</u>	<u>4,912,420</u>
Inter-governmental transfers	<u>(840,518)</u>	<u>(2,172,389)</u>
Increase in net position	543,011	2,740,031
Net position, beginning of the year	<u>15,082,209</u>	<u>12,342,178</u>
Net position, end of year	<u><u>\$ 15,625,220</u></u>	<u><u>\$ 15,082,209</u></u>

See accompanying notes to the financial statements

SENECA HEALTHCARE DISTRICT

Statements of Cash Flows

For The Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Cash received from patients and third-party payers	\$ 17,582,906	\$ 17,277,862
Other receipts	3,994,253	980,053
Cash payments to suppliers and contractors	(8,484,084)	(7,416,278)
Cash payments to employees and benefit programs	(9,314,853)	(9,171,796)
Net cash provided by operating activities	3,778,222	1,669,841
Cash flows from non-capital and related financing activities		
District tax revenue	611,543	585,734
Other non-operating revenue	12,287	-
Inter-governmental transfers	(840,518)	(2,172,389)
Net cash used in non-capital and related financing activities	(216,688)	(1,586,655)
Cash flows from capital and related financing activities		
Purchase of property, plant & equipment	(1,083,585)	(257,993)
Capital grants and donations	84,776	221,512
Acquisition of right-of-use assets	(109,422)	
New operating lease liability	162,491	
Payments of operating lease liability	(53,069)	
Payments of long-term debt	(1,533,856)	(24,284)
Interest paid on capital debt	(12,356)	(6,091)
Net cash used in capital and related financing activities	(2,545,021)	(66,856)
Cash flows from investing activities		
Net change in assets limited as to use	-	300
Investment income	42,206	82,143
Net cash provided by investing activities	42,206	82,443
Increase in cash and cash equivalents	1,058,719	98,773
Cash and cash equivalents at beginning of year	13,320,613	13,221,840
Cash and cash equivalents at end of year	<u>\$ 14,379,332</u>	<u>\$ 13,320,613</u>
Supplemental information		
Cash paid for interest payments	<u>\$ 5,437</u>	<u>\$ 6,091</u>

See accompanying notes to the financial statements

SENECA HEALTHCARE DISTRICT

Statements of Cash Flows (continued)

For The Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of income from operations to net cash provided by operating activities		
Operating income	\$ 645,073	\$ 4,029,122
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	448,336	439,144
Changes in operating assets and liabilities		
Patient accounts receivable	(14,411)	(8,307)
Other receivables	425,860	(846,555)
Supplies	(11,745)	(61,107)
Prepaid expenses	154,799	(21,653)
Accounts payable and accrued expenses	438,993	1,271,123
Accrued payroll and related expenses	110,601	187,623
Deferred revenue	823,009	(3,993,360)
Third-party payor settlements	757,707	673,811
Net cash provided by operating activities	<u>\$ 3,778,222</u>	<u>\$ 1,669,841</u>

See accompanying notes to the financial statements

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

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.

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

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.

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

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, 2022 and 2021, 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, 2022 and 2021 are \$595,713 and \$509,987, 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.

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

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. For the years ended June 30, 2022 and 2021, the District received tax revenue totaling \$611,543 and \$585,734, respectively.

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.

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

NOTE 1 - ORGANIZATION AND ACCOUNTING POLICIES (continued)

Recently Adopted Accounting Pronouncement: In June, 2017 the Governmental Accounting Standards Board released GASB 87 regarding changes in the way leases are accounted for. GASB 87 superseded GASB 13 and GASB 62 and more accurately portrays lease obligations by recognizing lease assets and lease liabilities on the statement of net position and disclosing key information about leasing arrangements. The District has adopted GASB 87 effective July 1, 2021 in accordance with the timetable established by GASB 87.

Subsequent events: Management evaluated the effect of subsequent events on the combined financial statements through December 29, 2022, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

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 - INFORMATION REGARDING LIQUIDITY AND AVAILABILITY OF RESOURCES

The District regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while striving to maximize the investment of its available funds. The District has various sources of liquidity at its disposal as itemized in the table presented below. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the District considers all expenditures related to its ongoing activities of providing health care services as well as the conduct of services undertaken to support those activities, to be general expenditures.

The District strives to maintain liquid financial assets sufficient to cover at least 30 days of expenditures. The District's policy is that excess cash on hand is invested in investment instruments with liquidity requirements to enable District usage of those assets within a short time period.

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

NOTE 2 - INFORMATION REGARDING LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

The following table reflects the District's financial assets as of June 30, 2022 and 2021, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date.

	2022	2021
Cash and cash equivalents	\$ 15,504,857	\$ 14,446,138
Patient accounts receivable, net of allowances	1,128,482	1,114,071
Other receivables	695,827	1,121,687
Total financial assets	17,329,166	16,681,896
Less reduction of financial assets not available for general expenses	(1,125,525)	(1,125,525)
Total financial assets available for one year of general expenses	\$ 16,203,641	\$ 15,556,371

In addition to financial assets available to meet general expenditures over the next 12-month period, the District operates a balanced budget and anticipates collecting sufficient patient service revenue to cover general expenditures not covered by assets limited as to use and donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the District's cash flow and shows positive cash generated by operations for fiscal years 2022 and 2021.

NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 30, 2022 and 2021, the District had deposits in various financial institutions in the form of cash and cash equivalents amounting to \$15,504,312 and \$14,445,793. 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.

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

NOTE 4 - 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 94% and 95% of gross patient service revenues for the years ended June 30, 2022 and 2021, respectively.

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 amount 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.

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 85%, for the year ended June 30, 2022, and 73%, for the year ended June 30, 2021, 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.

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

NOTE 5 - INVESTMENTS

The District's investment balances, and average maturities were as follows at June 30, 2022 and 2021:

2022				
	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Government investment funds	\$ 12,191,621	\$ 12,191,621	\$ -	\$ -
Money market accounts	2,502,092	2,502,092	-	-
U. S. government obligations	60,984	-	-	60,984
Total investments	<u>\$ 14,754,697</u>	<u>\$ 14,693,713</u>	<u>\$ -</u>	<u>\$ 60,984</u>

2021				
	Fair Value	Investment Maturities in Years		
		Less than 1	1 to 5	Over 5
Government investment funds	\$ 10,959,645	\$ 10,959,645	\$ -	\$ -
Money market accounts	309,539	309,539	-	-
U. S. government obligations	58,620	-	-	58,620
Total investments	<u>\$ 11,327,804</u>	<u>\$ 11,269,184</u>	<u>\$ -</u>	<u>\$ 58,620</u>

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 income, dividends, and both realized and unrealized gains and losses on investments are recorded as investment income. These amounts were \$42,206 and \$82,143 for the years ended June 30, 2022 and 2021, 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.

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 99.6% 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.

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

NOTE 5 – INVESTMENTS (continued)

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 83% and banks 17%. 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 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, 2022 and 2021 were as follows:

	2022	2021
Medicare	\$ 1,278,008	\$ 1,119,981
Medi-Cal and Medi-Cal pending	821,729	923,775
Other third party payors	1,221,092	1,317,160
Self pay and other	<u>503,358</u>	<u>206,919</u>
Gross patient accounts receivable	3,824,187	3,567,835
Less allowances for contractual adjustments and bad debts	<u>(2,695,705)</u>	<u>(2,453,764)</u>
Net patient accounts receivable	<u>\$ 1,128,482</u>	<u>\$ 1,114,071</u>

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

NOTE 7 - OTHER RECEIVABLES

Other receivables as of June 30, 2022 and 2021 were comprised of the following:

	2022	2021
District Taxes receivable	\$ 31,334	\$ 44,707
Contract pharmacy	-	17,224
Grant receivable	656,749	-
California DHS Rate Range Program	-	1,054,761
Other	7,744	4,995
	<u>\$ 695,827</u>	<u>\$ 1,121,687</u>

NOTE 8 - CAPITAL ASSETS

Capital assets as of June 30, 2022 and 2021 were comprised of the following:

	Balance at June 30, 2021	Transfers & Additions	Transfers & Retirements	Balance at June 30, 2022
Land and land improvements	\$ 90,610	\$ -	\$ -	\$ 90,610
Buildings and improvements	5,762,782	39,117	-	5,801,899
Equipment	5,506,323	132,173	-	5,638,496
Construction-in-progress	354,770	912,295	-	1,267,065
Totals at historical cost	11,714,485	<u>\$ 1,083,585</u>	<u>\$ -</u>	12,798,070
Less accumulated depreciation	(9,363,323)	<u>\$ (448,336)</u>	<u>\$ -</u>	(9,811,659)
Capital assets, net	<u>\$ 2,351,162</u>			<u>\$ 2,986,411</u>

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

NOTE 8 - CAPITAL ASSETS (continued)

	Balance at June 30, 2020	Transfers & Additions	Transfers & Retirements	Balance at June 30, 2021
Land and land improvements	\$ 90,610	\$ -	\$ -	\$ 90,610
Buildings and improvements	5,741,619	21,163	-	5,762,782
Equipment	5,414,802	94,219	(2,698)	5,506,323
Construction-in-progress	209,461	196,806	(51,497)	354,770
Totals at historical cost	11,456,492	<u>\$ 312,188</u>	<u>\$ (54,195)</u>	11,714,485
Less accumulated depreciation	<u>(8,924,179)</u>	<u>\$ (439,144)</u>	<u>\$ -</u>	<u>(9,363,323)</u>
Capital assets, net	<u>\$ 2,532,313</u>			<u>\$ 2,351,162</u>

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. During the years ended June 30, 2022 and 2021, the District's pension expense for the plan was \$53,436 and \$47,053, respectively.

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. In accordance with guidance on accounting for uncertainty in income taxes, the District's management has evaluated the District's tax positions and does not believe the District has any uncertain tax positions that require disclosure or adjustment to the financial statements. The District is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

NOTE 11 - DEBT BORROWINGS

Long-Term debt at June 30, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</u>
Note payable to a bank as part of the PPP Program, original amount of \$1,508,168, bearing interest at 1.0%, principal and interest payments deferred for one year, principal and interest forgivable at that time if certain requirements met, remaining principal and interest payable ratably over eighteen months, maturing in May 2022, unsecured.	\$ -	\$ 1,508,168
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.	<u>60,864</u>	<u>86,552</u>
Total debt borrowings	60,864	1,594,720
Less current maturities	<u>(27,172)</u>	<u>(1,533,855)</u>
Debt borrowings, net of current maturities	<u>\$ 33,692</u>	<u>\$ 60,865</u>

Future required principal payments under the above long-term debt are as follows: \$27,172 in 2023; \$28,743 in 2024; and \$4,949 in 2025.

NOTE 12 - LEASES

The District leases certain equipment under operating leases. Lease commencement occurs on the date the District takes possession or control of the equipment. The original term for the equipment lease is five years. The District's lease also includes certain standard clauses and termination provisions. Renewal options and termination options are included in determining the lease payments when management determines the options are reasonably certain to be exercised.

If readily determinable, the rate implicit in the lease is used to discount lease payments to present value; however, the District's lease did not provide a readily determinable implicit rate. When the implicit rate is not determinable, the District's estimated incremental borrowing rate is utilized, determined on a collateralized basis, to discount lease payments based on information available at lease commencement.

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

NOTE 12 – LEASES (continued)

The District's lease requires payment of sales taxes and other miscellaneous charges. The District's lease agreement does not contain any material restrictions, covenants, or any material residual value guarantees.

Lease related assets and liabilities as of June 30, 2022 and 2021 consist of the following:

	2022	2021
Assets		
Right-of-use assets	\$ 109,422	\$ -
Liabilities		
Operating lease liability, current	\$ 55,784	\$ -
Operating lease liability, less current portion	53,638	-
	\$ 109,422	\$ -

Total operating lease expense for the year ended June 30, 2022 and 2021 was \$267,336 and \$174,968, respectively.

The future minimum rental payments required under operating lease obligations as of June 30, 2022, having initial or remaining non-cancelable lease terms in excess of one year are summarized as follows:

Years ended June 30,	
2023	\$ 59,988
2024	54,989
	114,977
Less interest	(5,555)
Present value of lease liability	\$ 109,422

The weighted-average remaining lease term and discount rate as of June 30, 2022 are as follows:

Weighted-average remaining lease term	
Operating leases (years)	1.92
Weighted-average discount rate	
Operating leases	5.0%

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

NOTE 13- 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, 2022 and 2021, in terms of services to the poor and benefits to the broader community:

	2022	2021
Benefits for the poor		
Traditional charity care and related programs	\$ 95,370	\$ 41,304
Total quantifiable benefits for the poor	95,370	41,304
Benefits for the broader community		
Unpaid Medicare program charges	3,007,163	3,011,033
Unpaid MediCal program charges	3,202,103	2,482,870
Total quantifiable benefits for the broader community	6,209,266	5,493,903
Total quantifiable community benefits	\$ 6,304,636	\$ 5,535,207

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Construction-in-Progress: As of June 30, 2022, and 2021, the District had recorded \$1,267,065 and \$354,770, respectively, as construction-in-progress representing cost capitalized for various projects. The estimated amount to complete current obligated construction-in-process projects totals \$450,000 as of June 30, 2022.

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, 2022 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.

SENECA HEALTHCARE DISTRICT

Notes to Financial Statements

June 30, 2022 & 2021

NOTE 14 - COMMITMENTS AND CONTINGENCIES (continued)

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 statutes 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.

JWT & Associates, LLP

Advisory Assurance Tax

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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

The Board of Directors
Seneca Healthcare District
Chester, California

We have audited, in accordance with the 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 Seneca Healthcare District (the District), which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated December 29, 2022.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

JWT & Associates, LLP

December 29, 2022

SENECA HEALTHCARE DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2022

I. Summary of Auditor's Results

Type of auditor's report issued:	Unmodified	
Internal Control over financial reporting:		
Material weakness identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> no
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

II. Current Year Audit Findings and Questioned Costs

Financial Statement Findings

None reported

III. Prior Year Audit Findings and Questioned Costs

None reported