

An abstract geometric graphic in the bottom left corner, composed of several overlapping, semi-transparent, light gray triangular and polygonal shapes that create a sense of depth and movement, resembling a stylized mountain or a modern architectural structure.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Financial Statements and Required
Supplementary Information

Years Ended June 30, 2019 and 2018

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Years Ended June 30, 2019 and 2018

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Independent Auditor's Report

Board of Directors

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital
Garberville, California

Report on the Financial Statements

We have audited the accompanying financial statements of Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital (the "District"), which comprise the statements of net position as of June 30, 2019 and 2018, 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 accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital as of June 30, 2019 and June 30, 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Required Supplementary Information

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

Wipfli LLP

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

October 15, 2021
Spokane, Washington

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Management's Discussion and Analysis

June 30, 2019 and 2018

Our discussion and analysis of the financial performance of Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital (the "District") provides an overview of the District's financial activities for the years ended June 30, 2019, 2018, and 2017. Please read it in conjunction with the District's financial statements, which begin on page 9.

Financial Highlights

- The District's net position increased by \$1,245,072 in the past year from \$8,429,686 at June 30, 2018, to \$9,674,758 at June 30, 2019. In the prior year, the District's net position increased by \$1,392,616 from \$7,037,070 at June 30, 2017, to \$8,429,686 at June 30, 2018.
- Gross patient revenue increased by 7.7% from \$12,681,278 in fiscal year 2018 to \$13,651,500 in fiscal year 2019. Revenue deductions decreased by 23.9% in the past year from \$1,820,045 to \$1,385,055. Operating expenses increased by 3.7% in the past year from \$11,925,150 to \$12,382,797.

Using These Financial Statements

The District's financial statements consist of three statements: statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows. These financial statements and the related notes to the financial statements provide information about the activities of the District, including resources held by the District.

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

Our analysis of the District's finances begins on page 4. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The statements of net position and statements of revenues, expenses, and changes in net position report information about the District's resources and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements referred to above report the District's net position and its changes. The District's net position—the difference between assets and liabilities—is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are indicators of whether its financial health is improving or deteriorating. Readers should also consider other nonfinancial factors, such as changes in the District's patient base, measures of quality of the service it provides to the community, and local economic factors to assess the overall health of the District.

The Statements of Cash Flows

The final required statements are the statements of cash flows. These statements report cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. They provide answers to such questions as, "Where did cash come from?", "What was cash used for?", and "What was the change in cash balances during the reporting period?"

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Management's Discussion and Analysis

June 30, 2019 and 2018

The District's Net Position

The District's net position is the difference between the assets and liabilities reported in the statements of net position on page 9. The District's net position increased by \$1,245,072 from June 30, 2018, to June 30, 2019, as detailed in the following table:

Condensed Statements of Net Position at June 30 (In Thousands)

<i>June 30,</i>	2019	2018	2017	2018-2019 Increase (Decrease)	2017-2018 Increase (Decrease)
Assets:					
Other assets	\$ 5,820	\$ 5,252	\$ 6,043	\$ 568	\$ (791)
Capital assets	5,503	4,590	2,397	913	2,193
TOTAL ASSETS	\$ 11,323	\$ 9,842	\$ 8,440	\$ 1,481	\$ 1,402
Liabilities:					
Current liabilities	\$ 1,073	\$ 885	\$ 999	\$ 188	\$ (114)
Long-term liabilities	575	527	404	48	123
Total liabilities	1,648	1,412	1,403	236	9
Net position:					
Net investment in capital assets	4,786	3,906	1,891	880	2,015
Unrestricted	4,888	4,524	5,146	364	(622)
Total net position	9,674	8,430	7,037	1,244	1,393
TOTAL LIABILITIES AND NET POSITION	\$ 11,322	\$ 9,842	\$ 8,440	\$ 1,480	\$ 1,402

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Management's Discussion and Analysis

June 30, 2019 and 2018

Condensed Statements of Revenues, Expenses, and Changes in Net Position for the Years Ended June 30 (In Thousands)

<i>Years Ended June 30,</i>	2019	2018	2017	2018-2019 Increase (Decrease)	2017-2018 Increase (Decrease)
Operating revenue:					
Gross patient service revenue \$	13,652	\$ 12,682	\$ 13,942	\$ 970	\$ (1,260)
Contractual adjustments	283	(921)	(2,170)	1,204	1,249
Provision for bad debts	(1,668)	(899)	(825)	(769)	(74)
Net patient service revenue	12,267	10,862	10,947	1,405	(85)
Other operating revenue	13	1,210	561	(1,197)	649
Total operating revenue	12,280	12,072	11,508	208	564
Operating expenses:					
Salaries and wages	5,172	5,211	4,600	(39)	611
Employee benefits	1,364	1,788	1,454	(424)	334
Professional fees	2,202	1,479	1,604	723	(125)
Supplies	854	681	745	173	(64)
Purchased services	1,389	1,513	1,232	(124)	281
Utilities	115	95	111	20	(16)
Repairs and maintenance	232	215	161	17	54
Insurance	71	100	101	(29)	(1)
Other	367	323	325	44	(2)
Rents	126	117	114	9	3
Depreciation	491	403	412	88	(9)
Total operating expenses	12,383	11,925	10,859	458	1,066
Gain (loss) from operations	(103)	147	649	(250)	(502)
Nonoperating revenue	1,348	1,246	1,440	102	(194)
Change in net position	1,245	1,393	2,089	(148)	(696)
Net position - At beginning of year	8,430	7,037	4,948	1,393	2,089
Net position - At end of year \$	9,675	\$ 8,430	\$ 7,037	\$ 1,245	\$ 1,393

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Management's Discussion and Analysis

June 30, 2019 and 2018

Operating Income

Gross patient service revenue increased by \$970,222 compared with an increase of \$434,990 in revenue deductions. Inpatient gross revenue increased in 2018 largely due to a sharp decline in radiology revenue compared to previous years.

Total operating expenses increased by \$457,647 from fiscal year 2018 to 2019. This change was caused primarily by decreases in salaries and benefits of \$(463,196) and increases in professional fees of \$723,053. Salaries and benefits increased because of elevated full-time equivalents (FTE) and the average hourly rate and the benefits associated with them, along with increased health insurance cost. The departments that saw the largest increases in salaries medical acute management, emergency services, plant operations management, information services management, and nursing admin. The departments that saw the largest increase in benefits were skilled nursing paid time-off (PTO), emergency services PTO, clinical lab PTO, 340B drug expense, and admin workers comp insurance. Professional fees increased as a result of utilizing additional emergency service physicians, clinic physicians, radiology physicians, radiology registry techs, accounting audit fees, and legal services.

Nonoperating Income

For the fiscal year 2019, nonoperating revenue consisted primarily of property tax revenue. The District received \$1,238,743 in property tax revenue. This was an increase from 2018, where property tax revenue received by the District totaled \$1,158,829. In addition, the District received grant revenue in 2018 for Family Resource Center in the amount of \$101,333. Finally, the District incurred interest expense of \$109,327 in 2019 compared with \$32,044 in 2018.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating income and nonoperating revenue and expenses discussed earlier.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Management's Discussion and Analysis

June 30, 2019 and 2018

Capital Assets and Accumulated Depreciation

As of June 30, 2019, the District had \$5,503,291 invested in capital assets, net of accumulated depreciation. The historical cost and additions to capital assets and the changes in accumulated depreciation for the year ended June 30, 2019, are detailed in the following table:

	Balance at July 1, 2018	Additions	Retirements	Transfers	Balance at June 30, 2019
Land and improvements	\$ 869,535	\$ 115,265	\$ -	\$ 18,093	\$ 1,002,893
Buildings and improvements	2,112,891	973,289	-	44,394	3,130,574
Leasehold improvements	12,785	-	-	-	12,785
Moveable equipment	4,185,413	222,601	-	-	4,408,014
Software	646,491	-	-	-	646,491
Subtotals	7,827,115	1,311,155	-	62,487	9,200,757
Less: Accumulated depreciation	4,339,431	(490,512)	-	-	(4,829,943)
Subtotals	3,487,684	820,643	-	62,487	4,370,814
Construction in progress	1,101,927	93,037	-	(62,487)	1,132,477
Capital assets - Net	\$ 4,589,611	\$ 913,680	\$ -	\$ -	\$ 5,503,291

Long-Term Liabilities

At June 30, 2019, the District's long-term liabilities consisted of Series 1980 bonds in the amount of \$17,527 and notes payable in the amount of \$699,350, for aggregate outstanding total long-term liabilities of \$716,877. Of this amount, \$141,481 is due in installments over the next 12-month period.

Economic Factors Affecting 2019 and the Next Year

Southern Humboldt County and the town of Garberville are located in a densely forested and mountainous rural area. The County has relied on small private businesses, forest production, and cannabis cultivation as economic drivers. Garberville is approximately within a 15-minute drive from the Humboldt Redwood State Park; therefore, the town is accustomed to having a moderate amount of outside tourists. The 2020 United States Census has reported that the town of Garberville has a population of 1,126.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital Management's Discussion and Analysis

June 30, 2019 and 2018

Economic Factors Affecting 2019 and the Next Year (Continued)

The economy of southern Humboldt County has remained static with little change over time. The lack of economic growth is reflected in slow population growth. Trends show a steady increase in local property taxes, resulting in a large number of the District's staff commuting to work from the other nearby towns, as well as Eureka, California, approximately 73 miles away. Many of the District's staff, including the CEO and CFO, carpool approximately an hour to and from the District every day. Finding skilled workers to staff the District has been increasingly difficult because of these rural economic conditions.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, creditors, and members of our community with a general overview of the District's finances and to show the District's accountability for the money it receives. For questions about this report or for additional financial information, please contact the Chief Executive Officer at Southern Humboldt Community Healthcare District, 733 Cedar Street, Garberville, CA 95542.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Statements of Net Position

June 30, 2019 and 2018

<i>Assets</i>	2019	2018
Current assets:		
Cash and cash equivalents	\$ 4,081,974	\$ 1,759,663
Receivables:		
Patient accounts - Net	1,497,867	1,926,452
Estimated third-party payor settlements	-	1,385,270
Taxes receivable	6,586	6,529
Other	1,262	991
Inventories	17,229	81,522
Prepaid expenses and other	214,754	91,760
Total current assets	5,819,672	5,252,187
Noncurrent assets:		
Nondepreciable capital assets	1,568,721	1,438,171
Depreciable capital assets - Net	3,934,570	3,151,440
Total noncurrent assets	5,503,291	4,589,611
TOTAL ASSETS	\$ 11,322,963	\$ 9,841,798

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Statements of Net Position (Continued)

June 30, 2019 and 2018

<i>Liabilities and Net Position</i>	2019	2018
Current liabilities:		
Accounts payable	\$ 159,511	\$ 343,030
Payroll and related liabilities	219,911	249,537
Accrued compensated absences	168,067	135,573
Estimated third-party payable	383,839	-
Current maturities - Long-term debt	56,832	106,707
Current maturities - Capital lease obligations	84,649	50,310
Total current liabilities	1,072,809	885,157
Noncurrent liabilities:		
Long-term debt - Less current portion	240,221	296,762
Capital lease obligations - Less current portion	335,175	230,193
Total noncurrent liabilities	575,396	526,955
Total liabilities	1,648,205	1,412,112
Net position:		
Net investment in capital assets	4,786,414	3,905,639
Unrestricted	4,888,344	4,524,047
Total net position	9,674,758	8,429,686
TOTAL LIABILITIES AND NET POSITION	\$ 11,322,963	\$ 9,841,798

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2019 and 2018

	2019	2018
Operating revenue:		
Net patient service revenue	\$ 12,266,445	\$ 10,861,233
Other operating revenue	13,483	1,210,314
Total operating revenue	12,279,928	12,071,547
Operating expenses:		
Salaries and wages	5,171,557	5,210,743
Employee benefits	1,363,972	1,787,982
Professional fees	2,202,192	1,479,139
Supplies	854,309	680,606
Purchased services	1,388,816	1,513,117
Utilities	115,034	95,188
Repairs and maintenance	232,159	215,002
Insurance	71,444	100,381
Other	366,779	322,903
Rents	126,023	116,967
Depreciation	490,512	403,122
Total operating expenses	12,382,797	11,925,150
Operating income (loss)	(102,869)	146,397
Nonoperating revenue (expenses):		
Tax revenue	1,238,743	1,158,829
Grant income	101,333	100,197
Contribution and donation income	20,000	10,155
Interest income	31,300	7,331
Interest expense	(109,327)	(32,044)
Other	65,892	1,751
Total nonoperating revenue	1,347,941	1,246,219
Increase in net position	1,245,072	1,392,616
Net position, beginning of year	8,429,686	7,037,070
Net position, end of year	\$ 9,674,758	\$ 8,429,686

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Statements of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 14,464,139	\$ 11,932,576
Receipts from other operating activities	15,454	1,216,507
Payments to employees	(6,532,661)	(7,346,518)
Payments to suppliers, contractors, and others	(5,601,218)	(4,386,309)
Net cash provided by operating activities	2,345,714	1,416,256
Cash flows from noncapital financing activities:		
Property tax	1,238,686	755,929
Contribution and donation income	20,000	10,155
Receipts of other revenue	65,892	1,751
Grant income	101,333	100,197
Net cash provided by noncapital financing activities	1,425,911	868,032
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,203,436)	(2,115,618)
Principal paid on long-term debt	(167,851)	(302,260)
Interest paid on long-term debt	(109,327)	(32,044)
Net cash used in capital and related financing activities	(1,480,614)	(2,449,922)
Cash flows from investing activities:		
Interest received	31,300	7,331
Increase (decrease) in cash and cash equivalents	2,322,311	(158,303)
Cash and cash equivalents at beginning of year	1,759,663	1,917,966
Cash and cash equivalents at end of year	\$ 4,081,974	\$ 1,759,663

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Statements of Cash Flows (Continued)

Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (102,869)	\$ 146,397
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	490,512	403,122
Provision for bad debt	1,667,835	898,557
Changes in assets and liabilities:		
Patient accounts - Net	(1,239,250)	(1,295,388)
Other	(271)	3,443,174
Inventories	64,293	(32,710)
Prepaid expenses and other	(122,994)	(5,823)
Accounts payable	(183,519)	179,027
Payroll and related liabilities	(29,626)	(112,549)
Accrued compensated absences	32,494	(235,244)
Estimated third-party payor settlements	1,769,109	(1,972,307)
Total adjustments	2,448,583	1,269,859
Net cash provided by operating activities	\$ 2,345,714	\$ 1,416,256
Noncash financing activities		
Asset purchases financed with capital lease obligations	\$ 200,756	\$ 480,503

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Entity

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital (the "District") is a political subdivision of the state of California, organized under Local Healthcare District Law, as set forth in the Health and Safety Code of the State of California. The District operates a community hospital located in Garberville, California, that provides healthcare services to residents of the surrounding communities and visitors to the area. The District derives a significant portion of revenue from third-party payors, including Medicare, Medi-Cal, and commercial insurance organizations.

The District maintains its financial records in conformity with guidelines set forth by the Local Healthcare District Law and the Office of Statewide Health Planning and Development of the State of California.

Financial Statement Presentation

The Government Accounting Standards Board (GASB) is the accepted standard-setting body in the United States for establishing governmental accounting and financial reporting principles. The District's statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when the liability is incurred, regardless of the timing of the cash flows. Property taxes are recognized as revenue in the year in which they are levied. Grants and similar items are recognized as revenue as soon as eligibility requirements imposed by the provider have been met.

Use of Estimates

The preparation of the financial statements, in conformity with accounting principles generally accepted in the United States (GAAP), 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 amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The District considers highly liquid debt instruments, such as money market accounts, certificates of deposit, and pooled investment funds, as "cash equivalents." The District is authorized by California Government Code, Section No. 53648 et seq., to deposit cash and invest excess funds.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

The District maintains a portion of its cash in the Humboldt County Treasury as part of the common investment pool. The County is restricted by California Government Code, Section 53635 pursuant to Section 53601, to invest in time deposits, U.S. government securities, state registered warrants, notes, bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Investments in the county pool are valued using the amortized cost method (which approximates fair value) and include accrued interest. The pool has deposits and investments with a weighted-average maturity of more than one year. As of June 30, 2019, the fair value of the county pool is materially equivalent to the carrying value. Information regarding the amount of dollars invested in derivatives with the County was not available. At the date of the financial statements, the county investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by California Government Code, Section 27130. The District is considered to be an involuntary participant in the external investment pool.

Patient Accounts Receivable

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The District bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary payor is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on patient receivables are applied to the specific claim identified on the remittance advice or statement. The District does not have a policy to charge interest on past due accounts.

Patient accounts receivable are recorded in the accompanying statements of net position net of contractual adjustments and an allowance for doubtful accounts, which reflect management's estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probable uncollectible amounts, primarily for uninsured patients and amounts for which patients are personally responsible, through a reduction of gross revenue and a credit to an allowance for doubtful accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivable (Continued)

For receivables associated with self-pay patients (which includes patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District has a collateralization agreement with the bank that mitigates custodial credit risk.

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; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

The District has obtained medical malpractice insurance coverage from an insurance carrier on a claims-made basis. A claims-made insurance policy represents a transfer of risk within the policy limits to the insurance carrier for asserted claims and incidents reported to the insurance carrier. A claims-made insurance policy does not represent a transfer of risk for claims and incidents not reported to the insurance carrier during the policy period. Consequently, a healthcare organization insured under a claims-made policy recognizes the estimated cost of the claims and incidents not reported to the insurance carrier as of the end of the reporting period. The policy includes deductibles that are the responsibility of the District in amounts ranging from \$1,000 to \$50,000 per claim. Management estimates that the cost of any claims and incidents not reported to the insurance carrier as of June 30, 2019 and 2018, will not have a significant effect on the financial statements.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out (FIFO) method.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are recorded at historical cost or, in the case of donated items, at acquisition value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities, or extend useful lives are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Useful lives are 8 to 15 years for land improvements, 5 to 25 years for buildings and building improvements, and 3 to 20 years for equipment.

Net Position

Net position is reported in two categories:

Net investment in capital assets: This category consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of liabilities used to build, acquire, or improve those assets.

Unrestricted: This category consists of the remaining net position that does not meet the definition of the preceding category.

Operating Income and Expenses

The statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating income and expenses. Operating revenues result from exchange transactions associated with providing healthcare services. Nonexchange revenues, including taxes, grants, and contributions, are reported as nonoperating income. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Estimated uncollectible revenue is reported as a provision for bad debts in the financial statements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Some healthcare is provided with the knowledge that it will not be reimbursed. This is reported under charity care.

For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for services provided. Thus, the District records a provision for bad debts related to uninsured patients in the period the services are provided.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Revenue From Governmental Program

IGT Program - During 2019, the District received supplemental payments through the Nondesignated Public Intergovernmental Transfer Program the "IGT Program" created by California State Assembly Bill 113 to allow nondesignated public hospitals to access additional federal funds. Under this legislation, the District recognized approximately \$12,000,000 and \$11,000,000 in net patient service revenue for the years ended June 30, 2019 and 2018, respectively. The District received IGT Program revenue of \$5,288,396 and \$629,136 for the years ended June 30, 2019, and June 30, 2018, respectively, which is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

Grants and Contributions

The District receives grants and contributions from governmental and nongovernmental entities. Revenue from grants and contributions is recognized when all eligibility requirements, including time restrictions, are met. Amounts that are unrestricted or that are restricted for a specific purpose are reported as nonoperating revenues. Amounts restricted for capital acquisitions are reported after nonoperating revenue (expenses).

Tax Revenue

Property taxes are levied by Humboldt County on the District's behalf and are intended to support operations. The amount of property tax received is dependent on the assessed real property valuations, as determined by the Humboldt County Assessor. Tax liens for the fiscal year ending June 30 are billed in two installments due November 1 and February 1, and are considered delinquent after December 10 and April 10. The District received approximately 9% of its financial support from property taxes for both years ended June 30, 2019 and 2018.

Charity Care

The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The District does not pursue collection of amounts determined to qualify as charity care; therefore, they are not reported as revenue. The amount of charges foregone for services and supplies furnished under the District's charity care policy aggregated approximately \$187,000 and \$24,000 for the years ended June 30, 2019 and 2018, respectively.

Reclassification

Certain amounts as previously reported in the 2018 financial statements have been reclassified to conform to the 2019 presentation. Such reclassifications have no effect on previously reported amounts of net position or change in net position.

Note 2: Reimbursement Arrangements With Third-Party Payors

The District has agreements with third-party payors that provide for payments to the District at amounts

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

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

different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Hospital

Medicare - The Medicare program has designated the District as a critical access hospital (CAH) for Medicare reimbursement purposes. Under this designation, District inpatient, outpatient, and swing bed services rendered to Medicare program beneficiaries are paid for based on a cost-reimbursement methodology. Medicare has final settled cost reports for the years through 2019.

Medi-Cal - Under CAH designation, District inpatient services rendered to Medi-Cal program beneficiaries are paid for based on a prospective payment system. The reimbursement for outpatient services is based on a fee schedule. The District also applies for and receives supplemental reimbursement for its inpatient and outpatient services. The supplemental reimbursement is based on a cost-reimbursement methodology.

Nursing Facility

Medicare - Medicare pays the skilled nursing facility for Part A services based on a predetermined rate per resident day, which varies depending on a resident's level of care and the types of services provided.

Medi-Cal - Long-term care services are reimbursed at a daily rate, which is adjusted annually.

Physician and Professional Services in Rural Health Clinics

Certain physician and professional services rendered to Medicare and Medi-Cal beneficiaries qualify for reimbursement as rural health clinic services. Qualifying services are reimbursed based on a cost-reimbursement methodology.

Others

The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes discounts from established charges and prospectively determined daily rates.

Accounting for Contractual Arrangements

The District is reimbursed for certain cost-reimbursable items at an interim rate, with final settlements determined after an audit of the District's related annual cost reports by the Medicare fiscal intermediary. Estimated provisions to approximate the final expected settlements after review by the intermediary are included in the accompanying financial statements.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

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

Compliance

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to matters, such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and billing regulations.

Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed. Management believes that the District is in substantial compliance with applicable government laws and regulations. Although no significant regulatory inquiries have been made of the District, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RAC) as part of its efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that might have been made to healthcare providers and were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The District will then have the opportunity to appeal the adjustment before final settlement of the claim is made.

The District's policy is to adjust revenue for decreases in reimbursement from the RAC reviews when these amounts are estimable and for increases in reimbursement when the increase in reimbursement is agreed on. As of June 30, 2019, the District had not been notified of any potential reimbursement adjustments.

Note 3: Cash and Cash Equivalents

Deposits

The California Government Code (the "Code") requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and by pledging letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 3: Cash and Cash Equivalents (Continued)

Deposits (Continued)

Deposits and investments at carrying value consisted of the following as of June 30:

	2019	2018
Cash and cash equivalents:		
Demand deposits	\$ 3,250,766	\$ 1,159,636
County treasurer's investment pool	831,208	600,027
Total cash and cash equivalents	\$ 4,081,974	\$ 1,759,663

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits might not be recovered. The District maintains its cash accounts in depositories that are insured by the Federal Deposit Insurance Corporation (FDIC) to \$250,000 per institution for demand deposits and an additional \$250,000 for time deposits. It is customary for bank balances to temporarily exceed insurance limits. The entire balance held at the bank is subject to a collateralization agreement with the bank in addition to the FDIC coverage. At June 30, 2019, the District had deposits in excess of insured limits of \$2,942,862.

The county treasurer's investment pool is operated under state law and is overseen by elected officials. The deposits in the county treasurer's investment pool are pooled investments, which are not evidenced by specific securities. The county treasurer's investment pool is not registered with the U.S. Securities and Exchange Commission. The pool, rather than the participating investor, faces custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates could affect the fair value of an investment. The District's investment in the county treasurer's investment pool and money market funds are of short-term duration, which mitigates the risk.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 4: Patient Accounts Receivable - Net

Patient accounts receivable - net consisted of the following at June 30:

	2019	2018
Patient accounts receivable	\$ 3,136,919	\$ 3,439,047
Less:		
Contractual allowance	880,469	1,087,006
Allowance for doubtful accounts	758,583	425,589
Patient accounts receivable - Net	\$ 1,497,867	\$ 1,926,452

The District did not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Note 5: Net Patient Service Revenue

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

	2019	2018
Gross patient service revenue:		
Inpatient services	\$ 2,852,069	\$ 2,590,735
Outpatient services	10,799,431	10,090,543
Total gross patient revenue	13,651,500	12,681,278
Less:		
Contractual adjustments	(282,780)	921,488
Provision for bad debt	1,667,835	898,557
Net patient service revenue	\$ 12,266,445	\$ 10,861,233

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 5: Net Patient Service Revenue (Continued)

The following table reflects the percentage of gross patient service revenue by payor source for the years ended June 30, 2019:

	2019	2018
Medicare	28 %	17 %
Medi-Cal	45 %	34 %
Commercial and other third-party payors	18 %	42 %
Self-pay	9 %	7 %
Totals	100 %	100 %

Note 6: Charity Care

The District provides healthcare services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the mission of the District, care is provided to patients regardless of their ability to pay, including providing services to those persons who cannot afford health insurance because of inadequate resources.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on criteria defined in the District's charity care policy. The District maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under the District's charity care policy aggregated \$186,836 and \$23,518 for the years ended June 30, 2019 and 2018, respectively.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 7: Capital Assets

The District's capital assets activity consisted of the following:

	Balance at July 1, 2018	Additions	Retirements	Transfers	Balance at June 30, 2019
Land	\$ 336,244	\$ 100,000	\$ -	\$ -	\$ 436,244
Construction in progress	1,101,927	93,037	-	(62,487)	1,132,477
Total nondepreciable assets	1,438,171	193,037	-	(62,487)	1,568,721
Land improvements	533,291	15,265	-	18,093	566,649
Buildings	973,808	-	-	-	973,808
Building improvements	1,139,083	973,289	-	44,394	2,156,766
Leasehold improvements	12,785	-	-	-	12,785
Major moveable equipment	4,185,413	222,601	-	-	4,408,014
Software	646,491	-	-	-	646,491
Total depreciable assets	7,490,871	1,211,155	-	62,487	8,764,513
Total assets before depreciation	8,929,042	1,404,192	-	-	10,333,234
Less: Accumulated depreciation	(4,339,431)	(490,512)	-	-	(4,829,943)
Capital assets - Net	\$ 4,589,611	\$ 913,680	\$ -	\$ -	\$ 5,503,291

At June 30, 2019, construction in progress activity consisted primarily of the replacement hospital expenses and the remodeling project in the acute care and skilled nursing facility.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 7: Capital Assets (Continued)

The District's capital assets activity consisted of the following:

	Balance at July 1, 2017	Additions	Retirements	Transfers	Balance at June 30, 2018
Land	\$ 336,244	\$ -	\$ -	\$ -	\$ 336,244
Construction in progress	461,822	1,485,668	-	(845,563)	1,101,927
Total nondepreciable assets	798,066	1,485,668	-	(845,563)	1,438,171
Land improvements	27,550	505,741	-	-	533,291
Buildings	920,916	45,458	-	7,434	973,808
Building improvements	1,086,856	52,227	-	-	1,139,083
Leasehold improvements	12,785	-	-	-	12,785
Major moveable equipment	2,840,258	507,027	-	838,129	4,185,414
Software	646,490	-	-	-	646,490
Total depreciable assets	5,534,855	1,110,453	-	845,563	7,490,871
Total assets before depreciation	6,332,921	2,596,121	-	-	8,929,042
Less: Accumulated depreciation	(3,936,309)	(403,122)	-	-	(4,339,431)
Capital assets - Net	\$ 2,396,612	\$ 2,192,999	\$ -	\$ -	\$ 4,589,611

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 8: Long-Term Debt

Long-term debt activity consisted of the following:

	Balance at July 1, 2018	Additions	Reductions	Balance at June 30, 2019	Amounts Due Within One Year
Bonds and notes payable:					
1980 bond	\$ 85,806	\$ -	\$ 68,279	\$ 17,527	\$ 17,527
CHFFA loan	317,663	-	38,137	279,526	39,305
Total bonds and notes payable	403,469	-	106,416	297,053	56,832
Capital Leases:					
CT Scanner	280,503	-	50,310	230,193	53,590
Phillips Patient Monitoring	-	134,075	5,289	128,786	22,118
Unitrends CIT	-	66,681	5,836	60,845	8,941
Total capital lease obligations	280,503	200,756	61,435	419,824	84,649
Total long-term debt	683,972	\$ 200,756	\$ 167,851	716,877	\$ 141,481
Less - Current maturities	<u>157,017</u>			<u>141,481</u>	
Total long-term debt - Excluding current liabilities	<u>\$ 526,955</u>			<u>\$ 575,396</u>	

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 8: Long-Term Debt (Continued)

Long-term debt activity consisted of the following:

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Amounts Due Within One Year
Bonds and notes payable:					
1980 bond	\$ 151,055	\$ -	\$ 65,249	\$ 85,806	\$ 68,562
CHFFA loan	354,674	-	37,011	317,663	38,145
Total bonds and notes payable	505,729	-	102,260	403,469	106,707
Capital Leases:					
CT Scanner	-	480,503	200,000	280,503	50,310
Total long-term debt	505,729	\$ 480,503	\$ 302,260	683,972	\$ 157,017
Less - Current maturities	102,244			157,017	
Total long-term debt - Excluding current maturities	\$ 403,485			\$ 526,955	

Scheduled principal and interest payments on long-term liabilities are as follows for the years ending June 30:

	Bonds and Notes Payable		
	Principal	Interest	Total
2020	\$ 56,832	\$ 7,990	\$ 64,822
2021	40,501	6,653	47,154
2022	41,732	5,420	47,152
2023	43,001	4,151	47,152
2024	44,310	2,844	47,154
2025-2029	70,677	1,729	72,406
Totals	\$ 297,053	\$ 28,787	\$ 325,840

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 8: Long-Term Debt (Continued)

Future minimum payments on capital lease obligations are as follows:

	Capital Leases
	Payments
2020	\$ 112,168
2021	112,168
2022	112,168
2023	106,120
2024	45,506
2025-2029	11,485
Subtotal	499,615
Less amount attributable to interest	79,791
Total	\$ 419,824

Bonds and notes payable:

1980 Bond

The District issued the Hospital Revenue Bonds of 1980 (the "Bonds") and sold them to Rural Housing Service (formerly Farmers Home Administration). The District paid the Bonds as scheduled until September 1998. The District then filed for Chapter 9 Bankruptcy protection, which permitted the District to reorganize its obligation with respect to the Bonds over a 15-year period commencing on October 1, 2004, and ending on September 1, 2019. The District agreed to pay the unpaid principal amount plus accrued interest to September 1, 2004, totaling \$751,125, in monthly installments of \$5,941, including interest at 5% per annum. The Bonds are secured by a pledge of gross revenue and a first deed of trust on the District facilities. The bond agreement requires the District to maintain a debt service coverage ratio of at least 1.2 to 1.0. The outstanding balance as of June 30, 2019, was \$17,527.

California Health Facilities Financing Authority (CHFFA) Loan

The District obtained a CHFFA loan for the purchase of new CT scanners and equipment. The loan was issued in February 2011 with a maturity date of January 2026. This 15-year loan was originally in the amount of \$569,000. The District must repay the loan on a monthly basis at \$3,929 per month at a 3% interest rate. The outstanding balance as of June 30, 2019, was \$279,526.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 8: Long-Term Debt (Continued)

Phillips Patient Monitoring

The District obtained a loan for the use of a Philips Patient Monitor and clinic carpet. The loan was issued in April 2019 with a maturity date of July 2024. This five-year loan was originally in the amount of \$134,075. The District paid an initial payment on April 12, 2019 of \$8,034 and second payment on June 19, 2019 of \$4,057. The District must repay the loan on a quarterly basis at \$7,585 per quarter at a 8.77% interest rate. The outstanding balance as of June 30, 2019, was \$128,786.

Unitrends Financing CIT

The District obtained a loan for the use of an Unitrends Financing CIT. The loan was issued in March 2019 with a maturity date of June 2024. This five-year loan was originally in the amount of \$62,771. The District must repay the loan on a quarterly basis at \$3,792 per quarter at a 11.6% interest rate. The outstanding balance as of June 30, 2019, was \$60,845.

CT Scanner

The District obtained a loan for the use of a CT scanner. The loan was issued in June 2018 with a maturity date of May 2023. This five-year loan was originally in the amount of \$481,003. The District must repay the loan on a monthly basis at \$5,555 per month at a 6.33% interest rate. The outstanding balance as of June 30, 2019, was \$230,193.

Equipment under capital lease obligations are as follows at June 30:

	2019	2018
Historical cost	\$ 660,439	\$ 481,003
Less: Accumulated depreciation	(216,898)	(24,050)
Totals	\$ 443,541	\$ 456,953

Note 9: Retirement Plan

The District provides a deferred compensation plan for District employees to defer eligible compensation, up to certain limitations. The District also provides a noncontributory pension plan whereby the District will match certain employee contributions to the deferred compensation plan. District contributions are required, under the plan agreement, for those employees who have contributed a minimum of 6.00% of their compensation to the deferred compensation plan, at a rate of either 6.20% or 7.65% of compensation, depending on the hire date of the employee. Plan contributions totaled approximately \$122,000 and \$383,000 for the years ended June 30, 2019 and 2018, respectively.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 10: Joint Powers Agreement

The District is exposed to the risk of loss resulting from workers' compensation claims. To address this risk, the District participates in a joint powers agreement with the Association of California Healthcare Districts, Inc., ALPHA FUND (the "Fund"). The Fund arranges for and provides member entities with pooled workers' compensation self-insurance. Member entities include governmental entities, nonprofit hospital corporations, and nonprofit corporations that provide healthcare services similar to services provided by a healthcare district. The District pays an annual premium to the Fund for its workers' compensation insurance coverage.

Note 11: Concentration of Credit Risk

Financial instruments that potentially subject the District to credit risk consist principally of accounts receivable and cash deposits in excess of insured limits in financial institutions.

Patient accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medi-Cal) for healthcare provided to the patients. The majority of the District's patients are from southern Humboldt County, California, and the surrounding area.

The mix of receivables from patients and third-party payors was as follows as of June 30:

	2019	2018
Medicare	18 %	17 %
Medi-Cal	36 %	34 %
Commercial and other third-party payors	37 %	42 %
Self-pay	9 %	7 %
Totals	100 %	100 %

Note 12: Commitments and Contingencies

Commitments

In February 2015, the District entered into a group purchasing organization (GPO) arrangement for the procurement of supplies, services, and equipment through the GPO. The arrangement precludes the District from contracting directly with participating suppliers. The arrangement is effective for three years, with automatic one-year extensions thereafter.

Contingencies

The District is involved in claims arising in the course of business. Based on status of claims and insurance coverage available, management estimates these claims will be resolved without material adverse effect on the District's future financial position or results from operations.

Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital

Notes to Financial Statements

Note 12: Commitments and Contingencies (Continued)

Healthcare Reform

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States' healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. The federal healthcare reform legislation does not affect the financial statements for the years ended June 30, 2019 and 2018.

Seismic Compliance

Earthquakes affecting California hospitals have prompted California legislators to impose new hospital seismic safety standards pursuant to Senate Bill 1953, adopted in 1998. Under these new standards, California hospitals are required to meet stringent seismic safety criteria that may necessitate major renovation in certain facilities or even their partial or full replacement. The potential capital costs and negative operating effects of such replacements could be material and adverse.

The District has not yet determined the potential costs of compliance with Senate Bill 1953, but has until January 1, 2030, to comply with the requirements.

Note 13: Related-Party Transactions

In the ordinary course of business, the District has and expects to continue to have transactions with its employees and elected officials. In the opinion of management, such transactions were on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons and did not involve more than a normal risk of collectibility or present any other unfavorable features to the District.