

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

Financial Statements and Required Supplementary
Information

Years Ended June 30, 2022 and 2021



Independent Auditor's Report

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

Opinion

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, 2022 and 2021 and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements 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, 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 ("GAAP").

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital'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 Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital'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.

Other Matter

As discussed in Note 1 to the financial statements, during the fiscal year ended June 30, 2022 the District adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statement No. 87 - *Leases*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis ("MD&A") on pages 4 through 9, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2023, 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 Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Wipfli LLP

Spokane, Washington
December 8, 2023

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

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, 2022 and 2021. Please read it in conjunction with the District's financial statements, which begin on page 10.

Financial Highlights

- The District's net position increased by \$1,185,354 in the past year from \$18,558,625 at June 30, 2021, to \$19,743,979 at June 30, 2022. In the prior year, the District's net position increased by \$6,656,921 from \$11,901,704 at June 30, 2020, to \$18,558,625 at June 30, 2021.
- Gross patient revenue increased by 20.4% from \$15,669,473 in fiscal year 2021 to \$18,868,376 in fiscal year 2022. Revenue deductions increased by 29.6% from the past year from \$3,866,762 to \$5,010,972. Operating expenses increased by 25.7% in the past year from \$16,475,803 to \$20,712,184.

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 5. 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 is the difference between assets and liabilities and 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 (Continued)

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 10.

<i>June 30,</i>	2022	2021	2021-2022 Increase (Decrease)
Assets:			
Other assets	\$ 17,718	\$ 19,346	\$ (1,628)
Capital assets	6,805	5,857	948
TOTAL ASSETS	\$ 24,523	\$ 25,203	\$ (680)
Liabilities:			
Other liabilities	\$ 4,300	\$ 2,629	\$ 1,671
Long-term debt	479	4,015	(3,536)
Total liabilities	4,779	6,644	(1,865)
Net position:			
Net investment in capital assets	6,486	5,522	964
Unrestricted	13,258	13,037	221
Total net position	19,744	18,559	1,185
TOTAL LIABILITIES AND NET POSITION	\$ 24,523	\$ 25,203	\$ (680)

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

Management's Discussion and Analysis (Continued)

<i>Years Ended June 30,</i>	2022	2021	2021-2022 Increase (Decrease)
Operating revenue:			
Gross patient service revenue	\$ 18,868	\$ 15,669	\$ 3,199
Contractual adjustments	(4,235)	(2,528)	(1,707)
Provision for bad debts	(776)	(1,338)	562
Net patient service revenue	13,857	11,803	2,054
Other operating revenue	39	16	23
Total operating revenue	13,896	11,819	2,077
Operating expenses:			
Salaries and wages	7,665	7,142	523
Employee benefits	2,659	1,686	972
Professional fees	2,626	2,381	245
Supplies	2,514	1,463	1,051
Purchased services	2,224	1,648	576
Utilities	290	189	100
Repairs and maintenance	324	393	(69)
Insurance	110	141	(31)
Other	1,360	636	723
Rents	53	49	4
Depreciation	887	748	139
Total operating expenses	20,712	16,476	4,233
Loss from operations	(6,816)	(4,657)	(2,156)
Nonoperating revenue	8,001	11,314	(3,313)
Change in net position	1,185	6,657	(5,469)
Net position, beginning of year	18,559	11,902	6,657
Net position, end of year	\$ 19,744	\$ 18,559	\$ 1,188

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

Management's Discussion and Analysis (Continued)

Operating Income

Gross patient service revenue increased by \$3,198,903 compared with an increase of \$1,144,210 in revenue deductions. Total operating expenses increased by \$4,236,381 from fiscal year 2021 to 2022. This change was caused primarily by increases in salaries and benefits of \$1,495,605 and increases in supplies expense of \$1,051,064. Salaries and benefits increased because of elevated full-time equivalents (FTEs) and the average hourly rate and the benefits associated with them. The departments that saw the largest increases in salaries were retail pharmacy, clinic management and radiology. The departments that saw the largest increase in benefits were acute medical, administration, housekeeping and retail pharmacy. Professional fees increased as a result of utilizing additional contract clinic physicians, contract lab workers, consulting and legal services.

Nonoperating Income

For the fiscal year 2022, nonoperating revenue consisted primarily of property tax revenue and grant revenue. The District received \$1,077,695 in property tax revenue. This was an decrease from 2021, where property tax revenue received by the District totaled \$1,230,525. In addition, the District received grant revenue in 2022 for COVID-19 related funding and other miscellaneous sources in the amount of \$6,722,931.

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 (Continued)

Capital Assets and Accumulated Depreciation

As of June 30, 2022, the District had \$6,805,218 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, 2022, are detailed in the following table:

	Balance at July 1, 2021	Additions	Retirements	Transfers	Balance at June 30, 2022
Land and improvements	\$ 1,186,427	\$ 180,438	\$ -	\$ (124,500)	\$ 1,242,365
Buildings and improvements	3,662,553	66,169	-	124,500	3,853,222
Leasehold improvements	12,785	-	-	-	12,785
Moveable equipment	5,396,235	463,429	-	-	5,859,664
Software	657,945	-	-	-	657,945
Right of use assets	397,009	72,160	-	-	469,169
Subtotals	11,312,954	782,196	-	-	12,095,150
Accumulated depreciation	(6,312,027)	(886,993)	-	-	(7,199,020)
Subtotals	5,000,927	(104,797)	-	-	4,896,130
Construction in progress	856,037	1,053,051	-	-	1,909,088
Capital assets - Net	\$ 5,856,964	\$ 948,254	\$ -	\$ -	\$ 6,805,218

Long-Term Liabilities and Lease Obligations

At June 30, 2022, the District's long-term liabilities consisted of the Medicare refundable advance payments of \$2,325,101 a CHFFA Bridge Loan in the amount of \$511,000 and building lease obligations of \$319,027.

Economic Factors Affecting 2022 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 (Continued)

Economic Factors Affecting 2022 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.

The District has continuously worked toward the goal of meeting the California State seismic requirements that will go into effect on January 1, 2030. And in conjunction with those efforts the Southern Humboldt Healthcare Foundation has continued its fundraising and outreach efforts.

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, 2022 and 2021

<i>Assets</i>	2022	2021
Current assets:		
Cash and cash equivalents	\$ 14,886,052	\$ 17,093,771
Receivables:		
Patient accounts - Net	1,631,147	1,440,793
Taxes	6,529	6,529
Other	18,246	5,098
Estimated third-party payor settlements	985,654	654,447
Other inventories	74,264	20,472
Prepays and other	115,846	125,045
Total current assets	17,717,738	19,346,155
Noncurrent assets:		
Nondepreciable capital assets	2,572,804	1,463,633
Depreciable capital assets - Net	4,232,414	4,393,331
Total noncurrent assets	6,805,218	5,856,964
TOTAL ASSETS	\$ 24,522,956	\$ 25,203,119

**Southern Humboldt Community Healthcare District d/b/a
Jerold Phelps Community Hospital**
Statements of Net Position (Continued)

June 30, 2022 and 2021

<i>Liabilities and Net Position</i>	2022	2021
Current liabilities:		
Accounts payable	\$ 747,546	\$ 763,378
Payroll and related liabilities	405,570	470,196
Accrued compensated absences	470,621	365,891
Unearned revenue	112	510,325
Current maturities - Medicare refundable advance	2,325,101	447,037
Current maturities - Long-term debt	255,500	-
Current maturities - Lease obligations	95,528	72,370
Total current liabilities	4,299,978	2,629,197
Noncurrent liabilities:		
Medicare refundable advance - Less current portion	-	3,752,114
Long-term debt - Less current portion	255,500	-
Lease obligations - Less current portion	223,499	263,183
Total noncurrent liabilities	478,999	4,015,297
Total liabilities	4,778,977	6,644,494
Net position:		
Net investment in capital assets	6,486,191	5,521,411
Unrestricted	13,257,788	13,037,214
Total net position	19,743,979	18,558,625
TOTAL LIABILITIES AND NET POSITION	\$ 24,522,956	\$ 25,203,119

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, 2022 and 2021

	2022	2021
Operating revenue:		
Net patient service revenue	\$ 13,857,404	\$ 11,802,711
Other operating revenue	38,865	15,598
Total operating revenue	13,896,269	11,818,309
Operating expenses:		
Salaries and wages	7,665,094	7,142,012
Employee benefits	2,658,855	1,686,332
Professional fees	2,625,961	2,381,301
Supplies	2,513,866	1,462,802
Purchased services	2,224,311	1,647,470
Utilities	289,662	189,162
Repairs and maintenance	324,579	393,316
Insurance	109,651	141,187
Other	1,360,374	635,667
Rents	52,838	48,887
Depreciation	886,993	747,667
Total operating expenses	20,712,184	16,475,803
Operating loss	(6,815,915)	(4,657,494)
Nonoperating revenue (expenses):		
Tax revenue	1,077,695	1,230,525
Grant income	6,722,931	9,834,044
Contribution and donation income	-	506
Interest income	39,839	65,106
Interest expense	(28,914)	(21,538)
Other	189,718	205,772
Total nonoperating revenue	8,001,269	11,314,415
Increase in net position	1,185,354	6,656,921
Net position, beginning of year	18,558,625	11,901,704
Net position, end of year	\$ 19,743,979	\$ 18,558,625

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

Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 11,461,793	\$ 10,321,558
Receipts from other operating activities	25,718	11,761
Payments to employees	(10,283,846)	(8,589,196)
Payments to suppliers, contractors, and others	(9,561,665)	(6,332,282)
Net cash provided by used in operating activities	(8,358,000)	(4,588,159)
Cash flows from noncapital financing activities:		
Property tax	1,077,807	1,230,524
Receipts of other revenue	189,718	205,772
Grant income	6,212,606	6,022,634
Net cash provided by noncapital financing activities	7,480,131	7,458,930
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,763,089)	(1,602,688)
Principal paid on long-term debt and lease obligations	(88,686)	(61,456)
Borrowing from long-term debt	511,000	-
Interest paid on long-term debt and lease obligations	(28,914)	(21,538)
Net cash used in capital and related financing activities	(1,369,689)	(1,685,682)
Cash flows from investing activities:		
Interest received	39,839	65,106
Increase (decrease) in cash and cash equivalents	(2,207,719)	1,250,195
Cash and cash equivalents at beginning of year	17,093,771	15,843,576
Cash and cash equivalents at end of year	\$ 14,886,052	\$ 17,093,771
Significant noncash noncapital financing activities		
Forgiveness of PPP loan	\$ -	\$ 1,221,458

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

Statements of Cash Flows (Continued)

Years Ended June 30, 2022 and 2021

	2022	2021
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (6,815,915)	\$ (4,657,494)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	886,993	747,667
Provision for bad debt	775,948	1,338,378
Changes in assets and liabilities:		
Patient accounts - Net	(966,302)	(1,759,202)
Other receivables	(13,146)	(3,837)
Inventories	(53,792)	62,905
Prepaid expenses and other	9,198	63,382
Accounts payable	(15,832)	441,225
Payroll and related liabilities	(64,625)	149,266
Accrued compensated absences	104,730	89,879
Medicare refundable advance	(1,874,050)	(277,650)
Estimated third-party payor settlements	(331,207)	(782,679)
Total adjustments	(1,542,085)	69,335
Net cash used in operating activities	\$ (8,358,000)	\$ (4,588,159)

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 Governmental 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.

Use of Estimates

The preparation of the financial statements, in conformity with accounting principles generally accepted in the United States of America (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 (The "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)

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.

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.

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.

Changes in Accounting Policy

The District made the following changes in accounting policy during the year ended June 30, 2022:

GASB Statement No. 87 - *Leases* - issued in June 2017. The objective of this statement is to improve accounting and financial reporting for leases and enhance the relevance and consistency of information about governments' leasing activities. This statement is effective for the fiscal year ended June 30, 2022, with full retrospective presentation of all periods presented, based on the facts and circumstances that existed at July 1, 2020. Net position at July 1, 2020 and June 30, 2021, was not restated because there was no change in the previously recognized expenses.

Lease Accounting

The District is a lessee in multiple noncancelable leases. If the contract provides the District the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset is also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred. The lease liability is initially and subsequently recognized based on the present value of its future lease payments.

The discount rate used is the implicit rate in the lease contract, if it is readily determinable, or the District's incremental borrowing rate. The District uses the incremental borrowing rate based on the information available at the commencement date for all leases. The District's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset for finance leases is amortized on a straight line basis over the lease term.

For all underlying classes of assets, the District has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset. Leases containing termination clauses in which either party may terminate the lease without cause and the notice period is less than 12 months are deemed short-term leases, with lease costs included in short-term lease expense. The District recognizes short-term lease cost on a straightline basis over the lease term.

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

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 any long-term debt 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 categories.

When both restricted and unrestricted resources are available for an expenditure, it is the District's policy to spend restricted resources first.

Unearned Revenue

Unearned revenue arise when resources are unearned by the District and received before it has legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the applicable financial statement and revenue is recognized.

Unearned revenue consists of receipts of federal awards for which the earnings process was not yet completed at June 30, 2022 and 2021 because the eligibility requirements were not yet met.

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 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.

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Operating Income and Expenses (Continued)

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.

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 6% and 7% of its financial support from property taxes for years ended June 30, 2022 and 2021. Property taxes are recognized as revenue in the year in which they are levied.

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 \$779,000 and \$144,000 for the years ended June 30, 2022 and 2021, respectively.

Reclassifications

Certain amounts as previously reported in the 2021 financial statements have been reclassified to conform to the 2022 presentation. Such reclassifications have no effect on previously reported amounts of net position or changes in net position.

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

Notes to Financial Statements

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 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 2020.

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, 2022, the District had not been notified of any potential reimbursement adjustments.

Note 3: Cash and Cash Equivalents

Deposits

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, 2022, 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. 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).

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)

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.

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

	2022	2021
Cash and cash equivalents:		
Demand deposits	\$ 12,854,608	\$ 16,392,671
County treasurer's investment pool	2,031,444	701,100
Total cash and cash equivalents	\$ 14,886,052	\$ 17,093,771

Custodial Credit Risk

The District has a collateralization agreement with the bank that mitigates 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, 2022, the District had deposits in excess of insured limits of \$1,822,404.

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 3: Cash and Cash Equivalents (Continued)

Investments

The District is a participant in the State of California Local Agency Investment Fund (LAIF), which is regulated by CGC Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based on the District's pro rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawal is based on the accounting records maintained by LAIF. The LAIF investment portfolio consists primarily of federal agency securities, certificates of deposit, loans to certain state funds, and time deposits and is not registered with the U.S. Securities and Exchange Commission.

Note 4: Patient Accounts Receivable - Net

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

	2022	2021
Patient accounts receivable	\$ 3,905,365	\$ 3,356,597
Less:		
Contractual allowance	672,887	936,891
Allowance for doubtful accounts	1,601,331	978,913
Patient accounts receivable - Net	\$ 1,631,147	\$ 1,440,793

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:

	2022	2021
Gross patient service revenue:		
Inpatient services	\$ 3,113,610	\$ 3,213,332
Outpatient services	15,754,766	12,456,141
Total gross patient revenue	18,868,376	15,669,473
Less:		
Contractual adjustments	4,235,024	2,528,384
Provision for bad debt	775,948	1,338,378
Net patient service revenue	\$ 13,857,404	\$ 11,802,711

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, 2022 and 2021:

	2022	2021
Medicare	34 %	32 %
Medi-Cal	41 %	39 %
Commercial and other third-party payors	17 %	19 %
Self-pay	8 %	10 %
Totals	100 %	100 %

Revenue From Governmental Program

IGT Program - During 2022, 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 \$14,000,000 and \$12,000,000 in net patient service revenue for the years ended June 30, 2022 and 2021, respectively. The District received IGT Program revenue of \$2,523,961 and \$6,060,134 for the years ended June 30, 2022, and June 30, 2021, respectively, which is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

Note 6: Charity Care

The District provides healthcare services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. Consistent with the 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 \$778,794 and \$144,150 for the years ended June 30, 2022 and 2021, 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, 2021	Additions	Retirements	Transfers	Balance at June 30, 2022
Land	\$ 607,778	\$ 180,438	\$ -	\$ (124,500)	\$ 663,716
Construction in progress	856,037	1,053,051	-	-	1,909,088
Total nondepreciable assets	1,463,815	1,233,489	-	(124,500)	2,572,804
Land improvements	578,649	-	-	-	578,649
Buildings	1,217,969	66,169	-	124,500	1,408,638
Building improvements	2,444,584	-	-	-	2,444,584
Leasehold improvements	12,785	-	-	-	12,785
Major moveable equipment	5,396,235	463,429	-	-	5,859,664
Software	657,945	-	-	-	657,945
Total depreciable assets	10,308,167	529,598	-	124,500	10,962,265
Total assets before depreciation	11,771,982	1,763,087	-	-	13,535,069
Accumulated depreciation	(6,232,625)	(789,551)	-	-	(7,022,176)
Right of use assets:					
Buildings	397,009	72,160	-	-	469,169
Accumulated amortization:					
Right of use assets	(79,402)	(97,442)	-	-	(176,844)
Capital assets - Net	\$ 5,856,964	\$ 948,254	\$ -	\$ -	\$ 6,805,218

At June 30, 2022, construction in progress activity consisted primarily of the replacement hospital expenses and planning. The estimated date of completion for the new hospital construction in progress is December 30, 2029, with an estimated cost of completion of \$45,000,000.

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, 2020	Additions	Retirements	Transfers	Balance at June 30, 2021
Land	\$ 436,244	\$ 171,534	\$ -	\$ -	\$ 607,778
Construction in progress	387,097	597,643	-	(128,703)	856,037
Total nondepreciable assets	823,341	769,177	-	(128,703)	1,463,815
Land improvements	578,649	-	-	-	578,649
Buildings	1,147,675	70,294	-	-	1,217,969
Building improvements	2,171,474	273,110	-	-	2,444,584
Leasehold improvements	12,785	-	-	-	12,785
Major moveable equipment	4,777,423	490,109	-	128,703	5,396,235
Software	657,945	-	-	-	657,945
Total depreciable assets	9,345,951	833,513	-	128,703	10,308,167
Total assets before depreciation	10,169,292	1,602,690	-	-	11,771,982
Accumulated depreciation	(5,564,360)	(668,265)	-	-	(6,232,625)
Right of use assets:					
Buildings	397,009	-	-	-	397,009
Accumulated amortization:					
Right of use assets	(79,402)	-	-	-	(79,402)
Capital assets - Net	\$ 4,922,539	\$ 934,425	\$ -	\$ -	\$ 5,856,964

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, 2021	Additions	Reductions	Balance at June 30, 2022	Amounts Due Within One Year
Direct borrowings:					
CHFFA bridge loan	\$ -	\$ 511,000	\$ -	\$ 511,000	\$ 255,500

	Balance at July 1, 2020	Additions	Reductions	Balance at June 30, 2021	Amounts Due Within One Year
Direct borrowings:					
PPP loan	\$ 1,221,456	\$ -	\$ 1,221,456	\$ -	-

Direct borrowings:

Paycheck Protection Program Loan

Paycheck Protection Program Loan - In March 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act created and funded the Small Business Administration (SBA) Paycheck Protection Program (PPP) to provide loans designated to help small businesses cover their near-term operating expenses and to provide an incentive to retain their employees during the COVID-19 crisis. The District applied for and was approved for a loan of \$1,221,458 that qualifies for forgiveness based on the level of employee retention and if utilized for payroll costs, mortgage obligations, rent, or utilities within a specified covered period and in accordance with the terms and conditions of the PPP loan. The PPP loan is guaranteed by the SBA. The PPP loan was forgiven during September 2021 and is included in nonoperating income in the accompanying statements of revenues, expenses, and changes in net position.

California Health Facilities Financing Authority (CHFFA) Bridge Loan

The District obtained a CHFFA loan to support its working capital needs. The loan was issued in May 2022 with a maturity date of May 2024. This 2-year loan was originally in the amount of \$511,000. The District must repay the loan in full within 24 months at a 0% interest rate. The balance was paid off during the year ended June 30, 2023.

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

Notes to Financial Statements

Note 9: Leases

Changes in leases payable consisted of the following for the year ended June 30, 2022:

	Balance at July 1, 2021	Additions	Reductions	Balance at June 30, 2022	Amounts Due Within One Year
836 Miller Building	\$ -	\$ 72,160	\$ 16,316	\$ 55,844	\$ 17,152
734 Cedar Building	104,209	-	22,475	81,734	24,341
696 Locust Building	75,029	-	16,182	58,847	17,524
756 Cedar Building	43,769	-	9,440	34,329	10,223
505 Melville Buildings #2/4	112,546	-	24,273	88,273	26,288
Leases payable	\$ 335,553	\$ 72,160	\$ 88,686	\$ 319,027	\$ 95,528

Changes in leases payable consisted of the following for the year ended June 30, 2021:

	Balance at July 1, 2020	Additions	Reductions	Balance at June 30, 2021	Amounts Due Within One Year
734 Cedar Building	\$ 123,295	\$ -	\$ 19,086	\$ 104,209	\$ 22,475
696 Locust Building	88,771	-	13,742	75,029	16,182
756 Cedar Building	51,785	-	8,016	43,769	9,440
505 Melville Buildings #2/4	133,158	-	20,612	112,546	24,273
Leases payable	\$ 397,009	\$ -	\$ 61,456	\$ 335,553	\$ 72,370

The terms and expiration dates of the District's leases payable, follow:

836 Miller Building - Payable in monthly installments of \$1,750 through June 2025. Agreement provides for negotiation with lessee in regard to extending the lease for a period of time to be determined.

734 Cedar Building - Payable in monthly installments of \$2,500 through June 2025. Agreement provides for negotiation with lessee in regard to extending the lease for a period of time to be determined.

696 Locust Building - Payable in monthly installments of \$1,800 through June 2025. Agreement provides for negotiation with lessee in regard to extending the lease for a period of time to be determined.

756 Cedar Building - Payable in monthly installments of \$1,050 through June 2025. Agreement provides for negotiation with lessee in regard to extending the lease for a period of time to be determined.

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

Notes to Financial Statements

Note 9: Leases (Continued)

505 Melville Buildings - Payable in monthly installments of \$2,700 through June 2025. Agreement provides for negotiation with lessee in regard to extending the lease for a period of time to be determined.

Future minimum lease payments for the years ending June 30 are:

	Principal	Interest
2023	\$ 95,528	\$ 22,071
2024	103,458	14,138
2025	120,041	5,608
Total	\$ 319,027	\$ 41,817

Note 10: Medicare Refundable Advance

As a result of the COVID-19 pandemic, CMS offered an accelerated and advance payment program, which gave providers the opportunity to receive an advance on future Medicare payments. The District received a non-interest-bearing Medicare Refundable Advance during the year ended June 30, 2020. Repayment of the Medicare Refundable Advance starts 12 months after receipt of the advance. At June 30, 2022 and 2021, the District had Medicare Refundable Advance liabilities totaling \$2,325,101 and \$4,199,151 respectively. Repayment of the Medicare Refundable Advance is a reduction in future Medicare payments as follows for the years ending June 30:

	Reduction of Medicare payments
2023	\$ 2,325,101
Total	\$ 2,325,101

Note 11: 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 \$133,790 and \$143,522 for the years ended June 30, 2022 and 2021, respectively.

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

Notes to Financial Statements

Note 12: 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. See note 3 regarding credit risk for deposits in excess of insured limits.

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:

	2022	2021
Medicare	16 %	18 %
Medi-Cal	22 %	30 %
Commercial and other third-party payors	9 %	12 %
Self-pay	53 %	40 %
Totals	100 %	100 %

Note 13: 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.

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, 2022 and 2021.

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

Notes to Financial Statements

Note 13: Commitments and Contingencies (Continued)

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.

Note 14: Related-Party Transaction

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.

Note 15: 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 \$500 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, 2022 and 2021, will not have a significant effect on the financial statements. The District is exposed to various risks of loss related to medical malpractice; torts; theft of, damage to, and destruction of assets; errors and omissions; injuries of employees; and natural disasters.

The District's comprehensive general liability insurance covers losses of up to \$5,000,000 per claim with \$15,000,000 annual aggregate for occurrence basis during a policy year (claims-made coverage). Deductibles under this plan are \$1,000 for each claim. Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the District. Although there exists the possibility of claims arising from services provided to patients through June 30, 2022, which have not yet been asserted, the District is unable to determine the ultimate cost, if any, of such possible claims, and accordingly no provision has been made for them. Settled claims have not exceeded commercial coverage in any of the three preceding years.

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

Notes to Financial Statements

Note 16: 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.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Southern Humboldt Community Healthcare District d/b/a Jerold Phelps Community Hospital (the "District"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 8, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as findings 2022.001, 2022.002, and 2022.003 that we consider to be a significant deficiencies.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Wipfli LLP

December 8, 2023
Spokane, Washington

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

Schedule of Findings and Responses

Year Ended June 30, 2022

Finding Number: 2022.001

Type of Finding: Significant deficiency

Description: Financial statement preparation and accompanying note disclosures

Condition: The District engages its external audit firm to prepare the financial statements and related disclosures.

Criteria: The District's internal control over financial matters does not end at the general ledger but extends to the financial statements and footnotes. The preparation of annual financial statements and related note disclosures in compliance with GAAP requires an expertise in accounting standards, and the independent auditor cannot be considered part of the District's internal control over the preparation of financial statements.

Cause: As with many small organizations, the persons involved in the financial reporting of the District do not maintain an expertise in accounting standards that are required for preparation of financial statements and related footnote disclosures in accordance with GAAP.

Effect: The independent auditor's assistance with preparation of the District's financial statements and the related footnote disclosures in accordance with GAAP represent a significant deficiency in internal controls over financial reporting. Because external auditors do not have the same comprehensive knowledge of the District as internal staff, there is an increased risk that the completeness of the financial statements and disclosures may be negatively impacted.

Recommendations: Management should continue to evaluate the skills, knowledge, and experience of their accounting personnel and evaluate the cost/benefit of additional education and training necessary to acquire or develop expertise in external financial reporting and preparation of the disclosure standards.

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

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

Schedule of Findings and Responses (Continued)

Year Ended June 30, 2022

Finding Number: 2022.002

Type of Finding: Significant deficiency

Description: Significant and material audit adjustments

Condition: During the audit, adjusting journal entries were required to reconcile the general ledger to supporting documents and convert the District's financial records to conform to GAAP principles. The adjusting journal entries were proposed and accepted by management and affected assets, liabilities and revenue.

Criteria: The District is responsible for the internal controls over the financial reporting process, including controls over procedures to recognize transactions in the correct period and properly adjust the general ledger. *Government Auditing Standards* considers the inability to properly reconcile the general ledger in accordance with GAAP to be an internal control deficiency.

Cause: Internal control over the general ledger and financial reporting were not operating as designed.

Effect: The District's internal controls over financial reporting at the general ledger and financial statement levels were not adequate to ensure a material misstatement would be prevented and/or detected. The District was not always in compliance with GAAP.

Recommendation: We recommend the District continue to evaluate its procedures and put processes in place to ensure all accounts are reconciled to the general ledger. The District should design and implement effective internal control procedures to ensure the financial statements and related notes are free from material misstatements.

Management Response: Management agrees with the assessment and has committed to evaluating the costs and benefits associated with reconciling the general ledger.

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

Schedule of Findings and Responses (Continued)

Year Ended June 30, 2022

Finding Number: 2022.003

Type of Finding: Significant deficiency

Description: Internal controls over revenue

Condition: Adequate review of the District's revenue was not performed to ensure grant revenue was not commingled with other revenue.

Criteria: The District's management is responsible for establishing internal controls over financial reporting to allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. This includes reporting of revenue.

Cause: Internal control over the general ledger and financial reporting were not operating as designed. Additionally, the finance department was not aware of the requirement that federal grants not be commingled with other sources of revenue.

Effect: The District's internal controls over financial reporting at the general ledger and financial statement levels were not adequate to ensure a material misstatement would be prevented and/or detected. The District was not always in compliance with GAAP or grant reporting requirements.

Recommendation: We recommend the District continue to evaluate its procedures and put processes in place to ensure all accounts are reconciled to the general ledger. The District should design and implement effective internal control procedures to ensure the financial statements and related notes are free from material misstatements. The District should centralize the reporting of grants so they are recorded to the general ledger in the correct accounts and separated by source.

Management Response: Management agrees with the assessment and has committed to evaluating the costs and benefits associated with reconciling revenue.

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

Prior Year Schedule of Findings and Responses

Year Ended June 30, 2021

Finding Number: 2021.001

Type of Finding: Significant deficiency

Description: Financial statement preparation and accompanying note disclosures

Condition: The District engages its external audit firm to prepare the financial statements and related disclosures.

Criteria: The District's internal control over financial matters does not end at the general ledger but extends to the financial statements and footnotes. The preparation of annual financial statements and related note disclosures in compliance with GAAP requires an expertise in accounting standards, and the independent auditor cannot be considered part of the District's internal control over the preparation of financial statements.

Cause: As with many small organizations, the persons involved in the financial reporting of the District do not maintain an expertise in accounting standards that are required for preparation of financial statements and related footnote disclosures in accordance with GAAP.

Effect: The independent auditor's assistance with preparation of the District's financial statements and the related footnote disclosures in accordance with GAAP represent a significant deficiency in internal controls over financial reporting. Because external auditors do not have the same comprehensive knowledge of the District as internal staff, there is an increased risk that the completeness of the financial statements and disclosures may be negatively impacted.

Recommendations: Management should continue to evaluate the skills, knowledge, and experience of their accounting personnel and evaluate the cost/benefit of additional education and training necessary to acquire or develop expertise in external financial reporting and preparation of the disclosure standards.

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

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

Prior Year Schedule of Findings and Responses (Continued)

Year Ended June 30, 2021

Finding Number: 2021.002

Type of Finding: Significant deficiency

Description: Significant and material audit adjustments

Condition: During the audit, adjusting journal entries were required to reconcile the general ledger to supporting documents and convert the District's financial records to conform to GAAP principles. The adjusting journal entries were proposed and accepted by management and affected assets, liabilities and revenue.

Criteria: The District is responsible for the internal controls over the financial reporting process, including controls over procedures to recognize transactions in the correct period and properly adjust the general ledger. *Government Auditing Standards* considers the inability to properly reconcile the general ledger in accordance with GAAP to be an internal control deficiency.

Cause: Internal control over the general ledger and financial reporting were not operating as designed.

Effect: The District's internal controls over financial reporting at the general ledger and financial statement levels were not adequate to ensure a material misstatement would be prevented and/or detected. The District was not always in compliance with GAAP.

Recommendation: We recommend the District continue to evaluate its procedures and put processes in place to ensure all accounts are reconciled to the general ledger. The District should design and implement effective internal control procedures to ensure the financial statements and related notes are free from material misstatements.

Management Response: Management agrees with the assessment and has committed to evaluating the costs and benefits associated with reconciling the general ledger.

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

Prior Year Schedule of Findings and Responses (Continued)

Year Ended June 30, 2021

Finding Number: 2021.003

Type of Finding: Significant deficiency

Description: Internal controls over revenue

Condition: Adequate review of the District's revenue was not performed to ensure grant revenue was not commingled with other revenue.

Criteria: The District's management is responsible for establishing internal controls over financial reporting to allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. This includes reporting of revenue.

Cause: Internal control over the general ledger and financial reporting were not operating as designed. Additionally, the finance department was not aware of the requirement that federal grants not be commingled with other sources of revenue.

Effect: The District's internal controls over financial reporting at the general ledger and financial statement levels were not adequate to ensure a material misstatement would be prevented and/or detected. The District was not always in compliance with GAAP or grant reporting requirements.

Recommendation: We recommend the District continue to evaluate its procedures and put processes in place to ensure all accounts are reconciled to the general ledger. The District should design and implement effective internal control procedures to ensure the financial statements and related notes are free from material misstatements. The District should centralize the reporting of grants so they are recorded to the general ledger in the correct accounts and separated by source.

Management Response: Management agrees with the assessment and has committed to evaluating the costs and benefits associated with reconciling revenue.