

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

Financial Statements and
Required Supplementary Information

Years Ended June 30, 2025 and 2024

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

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, 2025 and 2024, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2025 and 2024, 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"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our 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 accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that a management's discussion and analysis be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB) 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.

Wipfli LLP

Wipfli LLP

Spokane, Washington
September 2, 2026

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, 2025 and 2024. 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 \$3,755,012 in the past year from \$30,280,114 at June 30, 2024, to \$34,035,126 at June 30, 2025. In the prior year, the District's net position increased by \$8,794,205 from \$21,485,909 at June 30, 2023, to \$30,280,114 at June 30, 2024.
- Gross patient revenue increased by 25.4% from \$26,530,549 in fiscal year 2024 to \$33,261,208 in fiscal year 2025. Revenue deductions increased from \$(3,615,379) to \$1,520,924. Operating expenses increased by 23.2% in the past year from \$28,067,339 to \$34,589,737.

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—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 (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>	2025	2024	2024-2025 Increase (Decrease)
Assets:			
Other assets	\$ 22,211	\$ 19,498	\$ 2,713
Capital assets	20,430	16,917	3,513
TOTAL ASSETS	\$ 42,641	\$ 36,415	\$ 6,226
Liabilities:			
Other liabilities	\$ 5,226	\$ 3,354	\$ 1,872
Noncurrent liabilities	3,380	2,781	599
Total liabilities	8,606	6,135	2,471
Net position:			
Net investment in capital assets	15,971	13,242	2,729
Unrestricted	18,065	17,038	1,027
Total net position	34,036	30,280	3,756
TOTAL LIABILITIES AND NET POSITION	\$ 42,641	\$ 36,415	\$ 6,226

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

Management's Discussion and Analysis (Continued)

<i>Years Ended June 30,</i>	2025	2024	2024-2025 Increase (Decrease)
Operating revenue:			
Gross patient service revenue	\$ 33,261	\$ 26,531	\$ 6,730
Contractual adjustments	(625)	3,640	(4,265)
Provision for bad debts	(895)	(25)	(870)
Net patient service revenue	31,741	30,146	1,595
Other operating revenue	4,843	4,648	195
Total operating revenue	36,585	34,794	1,790
Operating expenses:			
Salaries and wages	13,680	10,926	2,754
Employee benefits	3,184	2,769	415
Professional fees	5,335	3,809	1,526
Supplies	5,335	5,176	159
Purchased services	2,396	2,183	213
Utilities	352	304	48
Repairs and maintenance	290	336	(46)
Insurance	238	173	65
Other	1,046	1,025	21
Rents	102	66	36
Depreciation	2,632	1,300	1,332
Total operating expenses	34,589	28,067	6,523
Operating income	1,995	6,727	(4,732)
Nonoperating revenue	1,762	2,067	(305)
Increase in net position	3,757	8,794	(5,037)
Net position, beginning of year	30,280	21,486	8,794
Net position, end of year	\$ 34,037	\$ 30,280	\$ 3,757

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 \$6,730,659 compared with an increase of \$5,136,303 in revenue deductions. Total operating expenses increased by \$6,522,398 from fiscal year 2024 to 2025. This change was caused primarily by increases in salaries and benefits of \$3,167,850 and increases in depreciation expense of \$1,332,008. Salaries and benefits increased because of the increase in 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 clinic management, quality assurance, and retail pharmacy. Professional fees increased as a result of utilizing additional registry nursing, contract clinic physician, and contract emergency physician services.

Nonoperating Income

For the fiscal year 2025, nonoperating revenue consisted primarily of property tax revenue and grant revenue. The District received \$1,404,861 in property tax revenue. This was an increase from 2024, where property tax revenue received by the District totaled \$1,084,388. In addition, the District recognized grant revenue in 2025 in the amount of \$671,037.

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.

Economic Factors Affecting 2025 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 Redwoods 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.

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 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. In conjunction with those efforts the Southern Humboldt Healthcare Foundation has continued its fundraising and outreach efforts.

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, 2025, the District had \$20,430,116 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, 2025, are detailed in the following table:

	Balance at July 1, 2024	Additions	Retirements	Transfers	Balance at June 30, 2025
Land and improvements	\$ 1,716,467	\$ 30,310	\$ -	\$ -	\$ 1,746,777
Building and improvements	4,934,056	18,750	-	6,909,966	11,862,772
Leasehold improvements	12,785	-	-	-	12,785
Moveable equipment	7,130,740	75,839	-	568,492	7,775,071
Software	657,945	-	-	-	657,945
Right of use assets	4,316,046	-	-	-	4,316,046
Subtotals	18,768,039	124,899	-	7,478,458	26,371,396
Accumulated depreciation	(9,534,513)	(2,631,620)	-	-	(12,166,133)
Subtotals	9,233,526	(2,506,721)	-	7,478,458	14,205,263
Construction in progress	7,683,040	6,020,271	-	(7,478,458)	6,224,853
Capital assets - Net	\$ 16,916,566	\$ 3,513,550	\$ -	\$ -	\$ 20,430,116

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, 2025 and 2024

<i>Assets</i>	2025	2024
Current assets:		
Cash and cash equivalents	\$ 5,086,078	\$ 8,242,123
Receivables:		
Patient accounts - Net	4,295,689	7,312,023
Other	4,194	4,194
Estimated third-party payor settlements	11,697,172	2,349,398
Inventories	603,526	604,652
Prepays and other	524,037	985,956
Total current assets	22,210,696	19,498,346
Noncurrent assets:		
Nondepreciable capital assets	7,418,379	8,846,256
Depreciable capital assets - Net	13,011,737	8,070,310
Total noncurrent assets	20,430,116	16,916,566
TOTAL ASSETS	\$ 42,640,812	\$ 36,414,912

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

Statements of Net Position (Continued)

June 30, 2025 and 2024

<i>Liabilities and Net Position</i>	2025	2024
Current liabilities:		
Accounts payable	\$ 2,388,793	\$ 961,618
Payroll and related liabilities	436,409	581,997
Accrued compensated absences	1,318,810	915,127
Other payables	2,037	1,646
Current maturities - Long-term debt	414,265	138,170
Current maturities - Lease obligations	22,368	140,694
Current maturities - SBITA obligations	642,961	614,683
Total current liabilities	5,225,643	3,353,935
Noncurrent liabilities:		
Long-term debt - Less current portion	3,334,103	2,050,739
Lease obligations - Less current portion	45,940	87,003
SBITA obligations - Less current portion	-	643,121
Total noncurrent liabilities	3,380,043	2,780,863
Total liabilities	8,605,686	6,134,798
Net position:		
Net investment in capital assets	15,970,479	13,242,156
Unrestricted	18,064,647	17,037,958
Total net position	34,035,126	30,280,114
TOTAL LIABILITIES AND NET POSITION	\$ 42,640,812	\$ 36,414,912

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, 2025 and 2024

	2025	2024
Operating revenue:		
Net patient service revenue	\$ 31,740,284	\$ 30,145,928
Retail pharmacy revenue	4,380,247	4,405,307
Optometry revenue	460,124	191,708
Other operating income	2,181	51,394
Total operating revenue	36,582,836	34,794,337
Operating expenses:		
Salaries and wages	13,679,519	10,926,292
Employee benefits	3,184,101	2,769,478
Professional fees	5,334,980	3,808,988
Supplies	5,335,421	5,175,836
Purchased services	2,395,930	2,183,086
Utilities	351,590	304,488
Repairs and maintenance	290,143	335,774
Insurance	238,076	172,820
Other	1,046,421	1,025,021
Rents	101,936	65,944
Depreciation	2,631,620	1,299,612
Total operating expenses	34,589,737	28,067,339
Operating income	1,993,099	6,726,998
Nonoperating revenue (expenses):		
Tax revenue	1,404,861	1,084,388
Grant income	671,037	594,209
Contribution and donation income	-	334,558
Interest income	53,857	194,029
Interest expense	(350,749)	(140,517)
Other	(17,093)	540
Total nonoperating revenue	1,761,913	2,067,207
Increase in net position	3,755,012	8,794,205
Net position, beginning of year	30,280,114	21,485,909
Net position, end of year	\$ 34,035,126	\$ 30,280,114

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

Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 30,313,297	\$ 27,669,390
Receipts from other operating activities	2,181	51,394
Payments to and on behalf of employees	(16,605,525)	(13,271,267)
Payments to suppliers, contractors, and others	(13,906,629)	(13,415,696)
Net cash provided by (used in) operating activities	(196,676)	1,033,821
Cash flows from noncapital financing activities:		
Property tax	1,404,861	1,084,275
Other nonoperating receipts (payments)	(17,094)	539
Grant income	671,428	930,367
Net cash provided by noncapital financing activities	2,059,195	2,015,181
Cash flows from capital and related financing activities:		
Purchase of capital assets	(5,506,946)	(4,987,226)
Principal paid on long-term debt, lease, and SBITA obligations	(1,114,773)	(971,706)
Borrowing from long-term debt	1,900,000	834,947
Interest paid on long-term debt, lease, and SBITA obligations	(350,749)	(140,517)
Net cash used in capital and related financing activities	(5,072,468)	(5,264,502)
Cash flows provided by investing activities:		
Interest received	53,904	194,076
Decrease in cash and cash equivalents	(3,156,045)	(2,021,424)
Cash and cash equivalents at beginning of year	8,242,123	10,263,547
Cash and cash equivalents at end of year	\$ 5,086,078	\$ 8,242,123

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

Statements of Cash Flows (Continued)

Years Ended June 30, 2025 and 2024

	2025	2024
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,993,099	\$ 6,726,998
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,631,620	1,299,612
Provision for bad debt	895,477	24,792
Changes in assets and liabilities:		
Patient accounts - Net	2,120,858	(6,514,291)
Inventories	1,126	(211,223)
Prepaid expenses and other	461,918	(750,576)
Accounts payable	788,905	613,207
Payroll and related liabilities	(145,588)	32,185
Accrued compensated absences	403,683	397,216
Estimated third-party payor settlements	(9,347,774)	(584,099)
Total adjustments	(2,189,775)	(5,693,177)
Net cash provided by (used in) operating activities	\$ (196,676)	\$ 1,033,821
Noncash capital and related financing activities:		
Assets financed with lease and subscription-based agreements	\$ -	\$ 4,316,046
Accounts payable for construction in progress	638,224	-

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 based on levels of patient care 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 California Department of Health Care Access and Information.

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.

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.

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)

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.

Capital Assets

Capital assets are recorded at historical cost or, in the case of donated items, at acquisition value at the date of donation, provided they exceed the board-approved capitalization threshold of \$5,000. 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.

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Leases and Subscription-Based Information Technology Arrangements (SBITAs)

The District is party to multiple noncancelable leases and SBITAs. 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 or SBITA. Right-of-use (ROU) assets and liabilities are recognized at the contract commencement date based on the present value of the future payments over the expected term. The ROU asset is also adjusted for any prepayments made, incentives received, and initial direct costs incurred. The liability is initially and subsequently recognized based on the present value of its future payments.

The discount rate used is the implicit rate in the 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. The District's incremental borrowing rate is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the 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 liabilities for short-term contracts that have a term of 12 months or less at commencement and do not include an option to purchase the underlying asset. Contracts containing termination clauses in which either party may terminate the contract without cause and the notice period is less than 12 months are deemed short-term, with costs included in operating expense. The District recognizes contract cost on a straight-line basis over the contract term.

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 category.

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

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.

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 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.

Retail pharmacy sales revenue is reported as exchange revenue and is recognized when prescription drugs or related pharmaceutical items are dispensed or sold. Revenue is measured at the established charges for such items, reduced by any applicable contractual adjustments.

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 4% and 3% of its financial support from property taxes for years ended June 30, 2025 and 2024. 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.

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

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

New Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences was effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. The objective of this statement is to better meet the informational needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The adoption of this statement was applied retroactively, and had no effect on beginning net position.

Reclassifications

Certain amounts as previously reported in the 2024 financial statements have been reclassified to conform to the 2025 presentation. Such reclassifications have no effect on previously reported amounts of net position or changes 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 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 2025.

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.

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)

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, up to a per-visit cap.

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.

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, 2025, the District had not been notified of any potential reimbursement adjustments.

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

Notes to Financial Statements

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, 2025, 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). 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:

	2025	2024
Cash and cash equivalents:		
Demand deposits	\$ 3,677,226	\$ 7,621,527
County treasurer's investment pool	1,408,852	620,596
Total cash and cash equivalents	\$ 5,086,078	\$ 8,242,123

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 in addition to the FDIC coverage.

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

Notes to Financial Statements

Note 3: Cash and Cash Equivalents (Continued)

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.

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:

	2025	2024
Patient accounts receivable	\$ 8,473,083	\$ 16,386,198
Less:		
Contractual allowance	1,539,625	7,511,366
Allowance for doubtful accounts	2,637,769	1,562,809
Patient accounts receivable - Net	\$ 4,295,689	\$ 7,312,023

Note 5: 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.

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

Notes to Financial Statements

Note 6: Net Patient Service Revenue

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

	2025	2024
Gross patient service revenue:		
Inpatient services	\$ 3,781,117	\$ 3,111,161
Outpatient services	29,480,091	23,419,388
Total gross patient revenue	33,261,208	26,530,549
Less:		
Contractual adjustments	625,447	(3,640,171)
Provision for bad debt	895,477	24,792
Net patient service revenue	\$ 31,740,284	\$ 30,145,928

The following table reflects the percentage of gross patient service revenue by payor source for the years ended June 30, 2025 and 2024:

	2025	2024
Medicare	39 %	34 %
Medi-Cal	42 %	41 %
Commercial and other third-party payors	16 %	17 %
Self-pay	3 %	8 %
Totals	100 %	100 %

Revenue From Governmental Programs

During 2025 and 2024, the District received supplemental payments through directed payment, quality incentive, rate range, and other programs designed to provide reimbursement for services rendered to Medi-Cal, Medi-Cal Managed Care, and other eligible patient populations. The District recognized IGT Program revenue of \$16,761,565 and \$9,497,749 for the years ended June 30, 2025, and June 30, 2024, respectively, which is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

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, 2024	Additions	Retirements	Transfers	Balance at June 30, 2025
Land	\$ 1,163,216	\$ 30,310	\$ -	\$ -	\$ 1,193,526
Construction in progress	7,683,040	6,020,271	-	(7,478,458)	6,224,853
Total nondepreciable assets	8,846,256	6,050,581	-	(7,478,458)	7,418,379
Land improvements	553,251	-	-	-	553,251
Buildings	1,367,015	-	-	122,894	1,489,909
Building improvements	3,567,041	18,750	-	6,787,072	10,372,863
Leasehold improvements	12,785	-	-	-	12,785
Major moveable equipment	7,130,740	75,839	-	568,492	7,775,071
Software	657,945	-	-	-	657,945
Total depreciable assets	13,288,777	94,589	-	7,478,458	20,861,824
Total assets before depreciation	22,135,033	6,145,170	-	-	28,280,203
Accumulated depreciation	(8,679,847)	(793,457)	-	-	(9,473,304)
Right of use assets:					
Buildings	580,234	-	-	-	580,234
Subscription assets	3,735,812	-	-	-	3,735,812
Total right of use assets before depreciation	4,316,046	-	-	-	4,316,046
Accumulated amortization:					
Right of use assets	(854,666)	(1,838,163)	-	-	(2,692,829)
Capital assets - Net	\$ 16,916,566	\$ 3,513,550	\$ -	\$ -	\$ 20,430,116

At June 30, 2025, construction in progress activity consisted primarily of the replacement hospital expenditures. The estimated date of completion for the new hospital construction in progress is December 30, 2029, with an estimated cost of completion of \$85,000,000, with primary financing through a loan from USDA.

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, 2023	Additions	Retirements	Transfers	Balance at June 30, 2024
Land	\$ 1,028,216	\$ 135,000	\$ -	\$ -	\$ 1,163,216
Construction in progress	5,061,695	4,511,398	-	(1,890,053)	7,683,040
Total nondepreciable assets	6,089,911	4,646,398	-	(1,890,053)	8,846,256
Land improvements	553,251	-	-	-	553,251
Buildings	1,351,462	15,553	-	-	1,367,015
Building improvements	3,554,349	12,692	-	-	3,567,041
Leasehold improvements	12,785	-	-	-	12,785
Major moveable equipment	6,764,484	366,256	-	-	7,130,740
Software	657,945	-	-	-	657,945
Total depreciable assets	12,894,276	394,501	-	-	13,288,777
Total assets before depreciation	18,984,187	5,040,899	-	(1,890,053)	22,135,033
Accumulated depreciation	(7,938,392)	(741,455)	-	-	(8,679,847)
Right of use assets:					
Buildings	580,234	-	-	-	580,234
Subscription assets	-	1,845,759	-	1,890,053	3,735,812
Total right of use assets before depreciation	580,234	1,845,759	-	1,890,053	4,316,046
Accumulated amortization:					
Right of use assets	(296,509)	(558,157)	-	-	(854,666)
Capital assets - Net	\$ 11,329,520	\$ 5,587,046	\$ -	\$ -	\$ 16,916,566

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, 2024	Additions	Reductions	Balance at June 30, 2025	Amounts Due Within One Year
Direct borrowings:					
LEAF data backup liability	\$ 53,135	\$ -	\$ 53,135	\$ -	\$ -
Maple Lane Loan	227,867	-	32,670	195,197	-
Help II Loan	1,907,907	-	78,015	1,829,892	86,751
Elga Loan	-	1,900,000	176,721	1,723,279	327,514
Total direct borrowings	\$ 2,188,909	\$ 1,900,000	\$ 340,541	\$ 3,748,368	\$ 414,265

	Balance at July 1, 2023	Additions	Reductions	Balance at June 30, 2024	Amounts Due Within One Year
Direct borrowings:					
LEAF data backup liability	\$ 106,365	\$ -	\$ 53,230	\$ 53,135	\$ 53,135
Maple Lane loan	262,814	-	34,947	227,867	-
Help II loan	1,184,026	800,000	76,119	1,907,907	85,035
Total direct borrowings	\$ 1,553,205	\$ 800,000	\$ 164,296	\$ 2,188,909	\$ 138,170

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

	Principal	Interest
2026	\$ 414,265	\$ 191,088
2027	449,787	155,565
2028	488,828	116,525
2029	531,745	73,608
2030	485,469	33,449
2031-2035	499,080	113,705
2036-2040	551,524	61,261
2041-2045	327,670	9,366
Totals	\$ 3,748,368	\$ 754,567

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

Notes to Financial Statements

Note 8: Long-Term Debt (Continued)

Direct borrowings:

LEAF Data Backup Liability

The District obtained direct financing for the purchase of backup servers. The loan was issued in May 2023, with a maturity date of May 2026. This 3-year loan was originally in the amount of \$159,690. The District must repay the loan with yearly payments of \$53,230 carrying 0.0% interest, with additional service charge of \$95 in the first year.

Maple Lane Loan

The District obtained a loan for the purchase of a building and land. The loan was issued April 2023, with repayment due upon completion of the sale of underlying assets. The sale was completed, with payments made out of escrow to previous owners on a monthly basis through August 2030.

Help II Loan

The District obtained a loan to finance the beginning construction of a new hospital. The loan was issued in April 2023, with a maturity date of March 2043. This 20-year loan was originally in the amount of \$2,000,000 received by the District in 3 disbursements, the first of which being \$1,200,000 falling in fiscal year 2023, with the remaining 2 disbursements totaling \$800,000 received in the fiscal year ended June 30, 2024. The District must repay the loan in monthly payments of \$10,213, including interest of 2.0%

Elga Loan

The District obtained a loan to finance the purchase of equipment. The loan was issued in December 2024, with a maturity date of November 2029. This 5-year loan was originally in the amount of \$1,900,000. The District must repay the loan with monthly payments of \$40,233 carrying 9.85% interest, with an additional one time documentation fee of \$1,495 in the first year.

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, 2025:

	Balance at July 1, 2024	Additions	Reductions	Balance at June 30, 2025	Amounts Due Within One Year
836 Miller Building	\$ 20,117	\$ -	\$ 20,117	\$ -	\$ -
734 Cedar Building	31,032	-	31,032	-	-
696 Locust Building	22,343	-	22,343	-	-
756 Cedar Building	13,034	-	13,034	-	-
505 Melville Buildings #2/4	33,515	-	33,515	-	-
Source One Printer Lease	107,656	-	39,348	68,308	22,368
Leases payable	\$ 227,697	\$ -	\$ 159,389	\$ 68,308	\$ 22,368

Changes in leases payable consisted of the following for the year ended June 30, 2024:

	Balance at July 1, 2023	Additions	Reductions	Balance at June 30, 2024	Amounts Due Within One Year
836 Miller Building	\$ 38,692	\$ -	\$ 18,575	\$ 20,117	\$ 20,117
734 Cedar Building	57,393	-	26,361	31,032	31,032
696 Locust Building	41,323	-	18,980	22,343	22,343
756 Cedar Building	24,106	-	11,072	13,034	13,034
505 Melville Buildings #2/4	61,985	-	28,470	33,515	33,515
Source One Printer Lease	135,033	-	27,377	107,656	20,653
Leases payable	\$ 358,532	\$ -	\$ 130,835	\$ 227,697	\$ 140,694

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 to extend the lease for a period of time to be determined. As of June 30, 2025, this lease was extended on a short-term basis.

734 Cedar Building - Payable in monthly installments of \$2,500 through June 2025. Agreement provides for negotiation with lessee to extend the lease for a period of time to be determined. As of June 30, 2025, this lease was extended on a short-term basis.

696 Locust Building - Payable in monthly installments of \$1,800 through June 2025. Agreement provides for negotiation with lessee to extend the lease for a period of time to be determined. As of June 30, 2025, this lease was extended on a short-term basis.

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

Notes to Financial Statements

Note 9: Leases (Continued)

756 Cedar Building - Payable in monthly installments of \$1,050 through June 2025. Agreement provides for negotiation with lessee to extend the lease for a period of time to be determined. As of June 30, 2025, this lease was extended on a short-term basis.

505 Melville Buildings - Payable in monthly installments of \$2,700 through June 2025. Agreement provides for negotiation with lessee to extend the lease for a period of time to be determined. As of June 30, 2025, this lease was extended on a short-term basis.

Source One Printer Lease - Equipment lease for multiple printers payable in monthly installments of \$2,252, through April 2028.

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

	Principal	Interest
2026	\$ 22,368	\$ 4,656
2027	24,224	2,800
2028	21,716	804
Totals	\$ 68,308	\$ 8,260

Note 10: SBITAs

Changes in subscription-based liabilities for the year ended June 30, 2025, are as follows:

	Balance July 1, 2024	Additions	Reductions	Balance at June 30, 2025	Amounts Due Within One Year
EHR	\$ 1,257,804	\$ -	\$ 614,843	\$ 642,961	\$ 642,961

Changes in subscription-based liabilities for the year ended June 30, 2024, are as follows:

	Balance July 1, 2023	Additions	Reductions	Balance at June 30, 2024	Amounts Due Within One Year
EHR	\$ -	\$ 1,845,759	\$ 587,955	\$ 1,257,804	\$ 614,683

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

Notes to Financial Statements

Note 10: SBITAs (Continued)

Electronic Health Records (EHR)

SBITA liability in the original amount of \$1,845,759, due in varying monthly installments averaging approximately \$55,000, including imputed interest at 4.48% until June 2026.

Future minimum subscription-based liability payments for the years ending June 30 are as follows:

	Principal		Interest	
2026	\$	642,961	\$	13,259
Totals	\$	642,961	\$	13,259

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 \$393,307 and \$268,368 for the years ended June 30, 2025 and 2024, respectively.

Note 12: Concentrations

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.

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

Notes to Financial Statements

Note 12: Concentrations (Continued)

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

	2025	2024
Medicare	25 %	17 %
Medi-Cal	26 %	41 %
Commercial and other third-party payors	27 %	21 %
Self-pay	22 %	21 %
Totals	100 %	100 %

Legislation

Recent federal and state legislation resulted in changes to Medi-Cal and other health care programs and will be implemented over the next several years. The legislation includes provisions affecting reimbursement, eligibility, and state Medi-Cal financing. Hospitals are subject to these changes due to the composition of payers and funding mechanisms. The legislation did not have a material effect on the June 30, 2025 financial statements, and management is monitoring its potential future impact.

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.

Seismic Compliance

Earthquakes affecting California hospitals have prompted California legislators to impose hospital seismic safety standards pursuant to Senate Bill 1953, signed into law in 1998. Under these requirements, California hospitals are required to meet stringent seismic safety criteria that may necessitate major renovation in certain facilities or partial or full replacement.

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

Notes to Financial Statements

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. Management estimates that the cost of any claims and incidents not reported to the insurance carrier as of June 30, 2025 and 2024, will not have a significant effect on the financial statements.

The District's comprehensive professional and 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, 2025, 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.