Jefferson Community Health Center, Inc. d/b/a

Jefferson Community Health & Life

Fairbury, Nebraska

Financial Statements and Supplementary Information
September 30, 2018 and 2017

Together with Independent Auditor's Report

Jefferson Community Health Center, Inc. d/b/a
Jefferson Community Health & Life

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Independent Auditor's Report

To the Board of Directors of
Jefferson Community Health Center, Inc. d/b/a
Jefferson Community Health & Life
Fairbury, Nebraska:

Report on the Financial Statements

We have audited the accompanying financial statements of Jefferson Community Health Center, Inc. d/b/a Jefferson Community Health & Life (Health Center) which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Center as of September 30, 2018 and 2017, and the results of its operations, changes in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information in Exhibit 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

SEIM JOHNSON, LLP.

Omaha, Nebraska,
January 14, 2019.

Jefferson Community Health Center, Inc. d/b/a
Jefferson Community Health & Life

Balance Sheets
September 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,023,617	2,359,361
Short-term investments	2,363,874	3,192,098
Receivables -		
Patients, net of allowance for doubtful accounts		
$424,142 in 2018 and $424,547 in 2017	2,996,676	2,602,445
Related-party	37,594	56,857
Other	89,247	98,256
Inventories	381,817	434,714
Prepaid expenses	308,379	221,952
Estimated third-party payor settlements - Medicare and Medicaid	265,787	--
Total current assets	8,466,991	8,965,683
Investments limited as to use	5,206,299	4,299,331
Property and equipment, net	11,525,500	12,364,722
Investment in joint venture	715,435	601,865
Intangible asset, net	--	64,639
Total assets	$ 25,914,225	26,296,240
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 284,992	337,809
Accounts payable -		
Trade	377,314	254,060
Property and equipment	--	20,867
Accrued interest	9,939	11,663
Accrued salaries, vacation and benefits payable	1,261,592	1,193,730
Estimated third-party payor settlements - Medicare and Medicaid	--	864,564
Total current liabilities	1,933,837	2,682,693
Long-term debt, net of current portion	4,428,590	4,704,696
Total liabilities	6,362,427	7,387,389
Net assets:		
Unrestricted	19,344,987	18,744,356
Temporarily restricted	156,057	113,741
Permanently restricted	50,754	50,754
Total net assets	19,551,798	18,908,851
Total liabilities and net assets	$ 25,914,225	26,296,240

See notes to financial statements

Jefferson Community Health Center, Inc. d/b/a
Jefferson Community Health & Life

Statements of Operations
For the Years Ended September 30, 2018 and 2017

	2018	2017
UNRESTRICTED REVENUE:		
Net patient service revenue before provision for bad debt	$ 21,080,350	21,021,236
Provision for bad debts	(268,095)	(578,495)
Net patient service revenue	20,812,255	20,442,741
Other revenue	1,597,881	1,318,708
Net assets released from restrictions used for operations	13,843	10,365
Total unrestricted revenue	22,423,979	21,771,814
EXPENSES:		
Salaries and wages	10,520,135	10,335,663
Employee benefits	2,358,010	2,353,220
Supplies	3,949,052	3,508,826
Professional fees and purchased services	1,416,404	1,288,791
Repairs, maintenance and utilities	1,375,819	1,271,866
Other expenses	792,116	748,151
Depreciation and amortization	1,397,764	1,401,796
Interest	146,005	154,145
Total expenses	21,955,305	21,062,458
OPERATING INCOME	468,674	709,356
NONOPERATING GAINS (LOSSES):		
Investment income	379,681	63,378
Gifts, grants and bequests	49,212	75,093
Fundraising expenses	(16,095)	(18,999)
Nonoperating gains, net	412,798	119,472
EXCESS OF REVENUE OVER EXPENSES	881,472	828,828
CHANGES IN NET UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	(280,841)	107,883
GIFTS, GRANTS AND BEQUESTS FOR PURCHASE OF PROPERTY AND EQUIPMENT	--	17,474
INCREASE IN UNRESTRICTED NET ASSETS	$ 600,631	954,185

See notes to financial statements

Jefferson Community Health Center, Inc. d/b/a
Jefferson Community Health & Life

Statements of Changes in Net Assets
For the Years Ended September 30, 2018 and 2017

	2018	2017
UNRESTRICTED NET ASSETS:		
Operating income	$ 468,674	709,356
Nonoperating gains, net	412,798	119,472
Changes in net unrealized gains and losses on other than trading securities	(280,841)	107,883
Gifts, grants and bequests for purchase of property and equipment	--	17,474
Increase in unrestricted net assets	600,631	954,185
TEMPORARILY RESTRICTED NET ASSETS:		
Restricted gifts, grants and bequests	56,159	22,637
Net assets released from restrictions used for operations	(13,843)	(10,365)
Increase in temporarily restricted net assets	42,316	12,272
CHANGE IN NET ASSETS	642,947	966,457
NET ASSETS, beginning of year	18,908,851	17,942,394
NET ASSETS, end of year	$ 19,551,798	18,908,851

See notes to financial statements

Jefferson Community Health Center, Inc. d/b/a
Jefferson Community Health & Life

Statements of Cash Flows
For the Years Ended September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 642,947	966,457
Adjustments to reconcile the change in net assets to net cash provided by operating activities -		
Depreciation and amortization	1,397,764	1,401,796
Amortization of debt issuance costs	7,765	7,765
Gain on investment in joint venture	(113,570)	(94,161)
Change in unrealized gains and losses on other than trading securities	280,841	(107,883)
Restricted gifts, grants and bequests	(56,159)	(40,111)
(Increase) decrease in current assets -		
Receivables -		
Patients	(394,231)	96,413
Related-party	19,263	(6,205)
Other	9,009	(4,935)
Inventories	52,897	13,218
Prepaid expenses	(86,427)	(23,389)
Estimated third-party payor settlements - Medicare and Medicaid	(265,787)	--
Increase (decrease) in current liabilities -		
Accounts payable - trade	123,254	(29,012)
Accrued interest	(1,724)	(606)
Accrued salaries, vacation and benefits payable	67,862	(46,249)
Estimated third-party payor settlements - Medicare and Medicaid	(864,564)	493,920
Net cash provided by operating activities	819,140	2,627,018
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including investments limited as to use	(2,030,266)	(1,263,966)
Proceeds from sale of investments, including investments limited as to use	1,670,681	177,129
Purchase of property and equipment, net	(514,770)	(584,874)
Net cash used in investing activities	(874,355)	(1,671,711)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(336,688)	(329,668)
Restricted gifts, grants and bequests	56,159	40,111
Net cash used in financing activites	(280,529)	(289,557)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(335,744)	665,750
CASH AND CASH EQUIVALENTS, beginning of year	2,359,361	1,693,611
CASH AND CASH EQUIVALENTS, end of year	$ 2,023,617	2,359,361
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 139,964	146,986

See notes to financial statements

(1) Description of Organization and Summary of Significant Accounting Policies

The following is a description of the organization and a summary of significant accounting policies of Jefferson Community Health Center, Inc. d/b/a Jefferson Community Health & Life (Health Center). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. Organization

The Health Center located in Fairbury, Nebraska (a Nebraska corporation, not-for-profit), operates a 17-bed critical access hospital, a 40-bed long-term care facility, a 12,000 square-foot fitness center and a home health agency. On July 1, 2016, the Health Center purchased the assets of the Fairbury Clinic, P.C. and hired its employees. The Health Center operates the clinic which has been designated as a provider-based rural health clinic. On September 6, 2018, the Health Center opened the Plymouth Clinic as a freestanding clinic.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for the Health Center. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential healthcare services through limited service hospitals and rural health networks. During fiscal year 1999, the Health Center's Board of Directors approved the Health Center's plan to obtain Critical Access Hospital (CAH) designation. CAH's are acute care facilities that provide emergency, outpatient and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis. The Health Center's application for CAH was approved by Nebraska Health and Human Services System and the certification was effective April 1, 2000.

B. Industry Environment

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, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. 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 repayments for patient services previously billed.

Management believes that the Health Center is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Health Center's financial statements, compliance with such laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. Use of Estimates

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

D. Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts included in investments limited as to use.

E. Patient Accounts Receivable, Net

The Health Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Health Center analyzes its past history 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. For receivables associated with services provided to patients who have third-party coverage, the Health Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health Center 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 the 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.

The Health Center also maintains a financial assistance (charity care) policy as described in Note 1(M).

F. Inventories

Inventories of drugs and other supplies are stated at the lower of cost (cost is determined principally using the first-in, first-out method) or net realizable value.

G. Short-term Investments and Investments Limited as to Use

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Changes in unrealized gains and losses on investments are excluded from excess of revenue over expenses unless the investments are trading securities. Periodically, the Health Center reviews its investments to determine whether any unrealized losses are other-than-temporary. During 2018 and 2017, there were no unrealized losses that were determined to be other-than-temporary.

Investments limited as to use include funds set aside by the Health Center's Board of Directors for future capital improvements or other expenses over which the Board retains control and may, at its discretion, subsequently use for other purposes. Investments limited as to use also includes funds restricted by donors for endowment or specific purposes. See Note 5 for the composition of investments limited as to use.

H. Property and Equipment, Net

Property and equipment acquisitions are recorded at cost. Depreciation is provided on a straight-line method based upon useful lives set forth by the American Hospital Association. The Health Center's capitalization policy is $5,000.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the acquired long-lived assets are placed into service.

The Health Center's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

I. Intangible Asset, Net

During 2016, the Health Center purchased the assets of the Fairbury Clinic, P.C. Independent valuations were performed and the amount paid over the estimated fair value of the assets and liabilities assumed was recorded as an intangible asset, related to the physician agreements not to compete for a period of time as specified in the covenants of the agreement. The intangible asset is amortized over the term of the agreements using the straight-line method. For the years ended September 30, 2018 and 2017 amortization expense of $64,639 and $86,185 is included with depreciation and amortization expense on the statements of operations, respectively.

J. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Health Center has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Health Center in perpetuity.

In 2007, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) was adopted by the State of Nebraska. A not-for-profit organization that is subject to UPMIFA is required to classify all or a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted. The portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets is required to be classified as temporarily restricted net assets until appropriated for expenditure by the Health Center.

K. Performance Indicator

The statements of operations include excess of revenue over expenses as a performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator, consistent with industry practice, include changes in net unrealized gains and losses on other than trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

L. Net Patient Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. 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. 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.

M. Financial Assistance/Charity Care

The Health Center provides care to patients who meet certain criteria under its financial assistance (charity care) policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Management's disclosure of charity care costs is described in Note 3.

The Health Center is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Health Center provides a variety of community health services at or below cost.

N. Group Health Insurance Costs

The Health Center is self-insured under its employee group health program, up to certain limits. Included in the accompanying statements of operations is a provision for premiums for excess coverage and payments for claims, including estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year-end.

O. Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

P. Tax-Exempt Status and Income Taxes

The Health Center is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Internal Revenue Service has established standards to be met to maintain the Health Center's tax exempt status. In general, such standards require the Health Center to meet a community benefits standard and comply with various laws and regulations.

The Health Center accounts for uncertainties in accounting for income tax assets and liabilities using guidance included in FASB ASC 740, *Income Taxes*. The Health Center recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. At September 30, 2018 and 2017, the Health Center had no uncertain tax positions accrued.

Q. Risk Management

The Health Center is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

R. Reclassification

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 reporting format.

S. Recent Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new standard changes presentation and disclosure requirements with the intention of helping not-for-profits provide more relevant information about their resources – and the changes in those resources – to donors, grantors, creditors, and other financial statement users. This ASU will be effective for the Health Center for fiscal years beginning after December 15, 2017. The Health Center is currently evaluating the effect that the standard will have on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Health Center has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases.* Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Health Center is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

T. Subsequent Events

The Health Center considered events occurring through January 14, 2019 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Net Patient Service Revenue

The Health Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. See summary of payment arrangements below. For uninsured patients that do not qualify for charity care, the Health Center recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Health Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the year from these major payor sources, is as follows:

		September 30, 2018				
		Medicare	Medicaid	Commerical	Self Pay	Total
Gross patient charges	$	15,643,743	2,374,788	7,122,054	2,463,816	27,604,401
Less: contractual allowances and discounts		4,908,628	471,926	1,002,873	140,624	6,524,051
Net patient service revenue	$	10,735,115	1,902,862	6,119,181	2,323,192	21,080,350

		September 30, 2017				
		Medicare	Medicaid	Commerical	Self Pay	Total
Gross patient charges	$	14,858,423	2,752,611	7,245,170	2,457,101	27,313,305
Less: contractual allowances and discounts		4,728,624	653,357	795,902	114,186	6,292,069
Net patient service revenue	$	10,129,799	2,099,254	6,449,268	2,342,915	21,021,236

A summary of the payment arrangements with major third-party payors follows:

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and most outpatient services and certain rural health clinic services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicare Administrative Contractor. The Health Center is reimbursed on a prospectively determined rate per episode for home healthcare services rendered to Medicare beneficiaries. The Health Center's Medicare cost reports have been audited by the Medicare Administrative Contractor through September 30, 2016.

The “Budget Control Act of 2011” requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, incur a two percent reduction in Medicare payment.

Medicaid. Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Health Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health Center. Long-term care services are reimbursed at prospectively determined rates per day of care. These rates vary according to a patient classification system.

The Health Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Health Center under these agreements primarily includes discounts from established charges.

Net patient service revenue, as reflected in the accompanying statements of operations, consists of the following:

		2018	2017
Gross patient charges:			
Inpatient services	$	3,637,125	3,900,599
Outpatient services		18,451,200	17,745,824
Clinic		2,955,955	3,111,396
Long-term care services		2,560,121	2,555,486
		27,604,401	27,313,305
Less deductions from gross patient charges:			
Medicare		4,908,628	4,728,624
Medicaid		471,926	653,357
Other third-party adjustments		1,002,873	795,902
Charity care		140,624	114,186
		6,524,051	6,292,069
Net patient service revenue before provision for bad debt	$	21,080,350	21,021,236

Revenue from the Medicare and Medicaid programs accounted for approximately 51% and 9%, respectively, of the Health Center’s net patient revenue for the year ended September 30, 2018 and approximately 48% and 10%, respectively, for the year ended September 30, 2017. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2018 and 2017 net patient service revenue increased approximately $57,000 and $194,500, respectively, due to the removal of allowances previously estimated that were no longer necessary as a result of final settlements and years no longer subject to audits, reviews and investigations.

(3) Financial Assistance/Charity Care

The Health Center provides charity care to patients who are financially unable to pay for the healthcare services they receive. It is the policy of the Health Center not to pursue collection of amounts determined to qualify as charity care. Accordingly, the Health Center does not report these amounts in net operating revenue or in the allowance for doubtful accounts. The Health Center determines the costs associated with providing charity care by aggregating the direct and indirect costs, including salaries, benefits, supplies, and other operating expenses, based on an overall cost to charge ratio. The costs of caring for these patients for the years ended September 30, 2018 and 2017 were approximately $99,000 and $81,000, respectively.

(4) Fair Value

The Health Center applies FASB ASC 820 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the Health Center has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through either corroboration or observable market data.

- Level 3 inputs are unobservable inputs for the asset or liability. Therefore, unobservable inputs shall reflect the Health Center's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Repurchase agreements – Repurchase agreements are classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Fixed income securities - Investments in fixed income securities are comprised of federal agency obligations, and corporate bonds and notes. U.S. treasury bonds are classified as Level 1 if they trade with sufficient frequency and volume to obtain pricing information on an ongoing basis. The remaining are classified as Level 2 based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

Mutual funds - The fair value of mutual funds is classified as Level 1 as the market value is based on quoted market prices, when available, or market prices provided by recognized broker dealers.

The following table presents the financial instruments that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at September 30, 2018 and 2017:

	September 30, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Repurchase agreements	$ 2,340,000	--	2,340,000	--
Fixed income securities				--
Corporate bonds	1,133,373	--	1,133,373	--
US treasury securities	1,453,783	1,453,783	--	--
Federal agency securities	124,518	--	124,518	--
Municipal bonds	25,733	--	25,733	--
Mutual funds				
Money market	10,079	10,079	--	--
International	282,960	282,960	--	--
Large cap	569,306	569,306	--	--
Small cap	215,414	215,414	--	--
Fixed income	1,143,561	1,143,561	--	--
	$ 7,298,727	3,675,103	3,623,624	--
Investments not subject to fair value measurement:				
Cash and cash equivalents	178,931			
Certificates of deposit	51,754			
Accrued interest	40,761			
	$ 7,570,173			

	September 30, 2017			
	Total	**Level 1**	**Level 2**	**Level 3**
Repurchase agreements	$ 2,840,000	--	2,840,000	--
Fixed income securities				--
Corporate bonds	1,302,271	--	1,302,271	--
US treasury securities	994,125	994,125	--	--
Federal agency securities	279,677	--	279,677	--
Municipal bonds	77,105	--	77,105	--
Mutual funds				
Money market	134,711	134,711		--
International	264,703	264,703	--	--
Large cap	640,585	640,585	--	--
Mid cap	46,367	46,367	--	--
Small cap	71,638	71,638	--	--
Fixed income	298,291	298,291	--	--
	$ 6,949,473	2,450,420	4,499,053	--
Investments not subject to fair value measurement:				
Cash and cash equivalents	464,839			
Certificates of deposit	51,754			
Accrued interest	25,363			
	$ 7,491,429			

(5) Short-term Investments and Investments Limited as to Use

Short-term investments and investments limited as to use are stated at fair value. The composition of short-term investments and investments limited as to use, as of September 30, 2018 and 2017 is set forth in the following table:

		2018	2017
Short-term investments:			
Cash and cash equivalents	$	23,874	352,098
Repurchase agreements		2,340,000	2,840,000
Total short-term investments	$	2,363,874	3,192,098
Investments limited as to use:			
Board Designated -			
Fixed income securities	$	2,737,407	2,653,178
Mutual funds		2,221,320	1,456,295
Accrued interest		40,761	25,363
Total board designated		4,999,488	4,134,836
By Donor -			
Cash and cash equivalents		155,057	112,741
Certificates of deposit		51,754	51,754
Total donor		206,811	164,495
Total investments limited as to use	$	5,206,299	4,299,331

Investment return for the years ended September 30, 2018 and 2017 is summarized as follows:

		2018	2017
Interest and dividends	$	145,568	94,010
Investment management fees		(3,271)	(21,055)
Net realized gains		237,384	(9,577)
Change in unrealized gains (losses)		(280,841)	107,883
Total investment return	$	98,840	171,261
Included in nonoperating gains, net	$	379,681	63,378
Reported separately as a change in unrestricted net assets		(280,841)	107,883
Total investment return	$	98,840	171,261

(6) Property and Equipment

Property and equipment as of September 30, 2018 and 2017 is summarized as follows:

		2018	2017
Land and improvements	$	318,529	310,029
Buildings and fixed equipment		19,749,460	19,604,363
Major moveable equipment		5,596,862	5,384,957
Construction in progress		--	161,018
		25,664,851	25,460,367
Less accumulated depreciation		14,139,351	13,095,645
Property and equipment, net	$	11,525,500	12,364,722

Depreciation expense of $1,333,125 and $1,315,611 in 2018 and 2017, respectively, is included in the accompanying statements of operations.

(7) Investment in Joint Venture

Investment in joint venture is composed of the following:

		2018	2017
Fairbury Assisted Living Facility	$	715,435	601,865

During 2001, the Health Center entered into a joint venture with Bryan Health (Bryan), to form Fairbury Assisted Living Facility d/b/a Cedarwood, a not-for-profit organization. The Health Center and Bryan are the two corporate members of Cedarwood. Cedarwood constructed a 42-unit assisted living facility on the Health Center's campus. During 2015, an 8-unit addition was completed, bringing the total units to 50. The Health Center accounts for its investment and its share of gains by the equity method of accounting. A summary of the audited financial information of Cedarwood is as follows:

		2018	2017
Condensed Balance Sheets			
Total current assets	$	340,611	436,621
Assets limited as to use, net of current portion		283,747	279,762
Property and equipment, net		2,281,468	2,459,986
Total assets	$	2,905,826	3,176,369
Long-term debt payable, current portion	$	364,517	352,538
Other current liabilities		94,286	134,565
Long-term debt payable, long-term portion		953,113	1,414,348
Other long-term liabilities		63,040	71,189
Total liabilities	$	1,474,956	1,972,640
Net assets	$	1,430,870	1,203,729
Health Center's investment in joint venture	$	715,435	601,865

	2018	2017
Condensed Statements of Operations		
Total revenue	$ 1,870,473	1,861,517
Expenses:		
Salaries and employee benefits	597,585	591,258
Other expenses	715,873	745,498
Depreciation and amortization	266,056	260,374
Interest expense	62,776	78,665
Total expenses	1,642,290	1,675,795
Operating gain	228,183	185,722
Nonoperating gains, net	7,256	4,337
Excess of revenue over expenses	235,439	190,059
Changes in net unrealized gains on other than trading securities	(8,298)	(1,737)
Increase in unrestricted net assets	$ 227,141	188,322
Health Center's equity in increase in unrestricted net assets of joint venture	$ 113,570	94,161

On January 16, 2003, $4,805,000 of tax-exempt Revenue Bonds were issued by Hospital Authority No. 1 of Jefferson County, Nebraska (Issuer), payable over 20 years, to finance the construction of the facility. Under separate bond guarantee agreements, the two corporate members (1) Bryan and (2) the Health Center, each guaranteed payment of one-half of the outstanding debt service on the bonds in the event of a default in payment when due by Cedarwood. The obligation of this guarantee shall remain in full force and effect until the entire principal and interest have been paid in accordance with the bond documents. Cedarwood shall repay to the Health Center all amounts advanced under the guarantee subject to the availability of funds as outlined in the guarantee agreement. On January 18, 2012, $2,795,000 of tax-exempt Revenue Refunding Bonds were issued to refund the Series 2003 Revenue Bonds. The Series 2012 Revenue Refunding Bonds are subject to the same terms and agreements as the Series 2003 Revenue Bonds.

On May 30, 2013, a $1,100,000 note payable was loaned to Cedarwood by West Gate Bank pursuant to a Promissory Note, payable over five years, between Cedarwood, (guaranteed by the Health Center and Bryan), and West Gate Bank. The proceeds of the promissory note were used to finance the design, construction and equipping of an eight bed addition to the assisted living facility. In addition to required monthly payments getting paid, Cedarwood paid an additional $100,000 in October 2016 and 2017 related to this note payable. During 2016, Cedarwood and West Gate Bank entered into a loan amendment agreement to extend the terms of the loan payments until June 2021.

The following illustrates the debt service requirement for the long-term debt:

	Principal	Interest	Total
2019	$ 364,517	45,389	409,906
2020	377,556	31,650	409,206
2021	335,272	17,358	352,630
2022	260,000	5,460	265,460
	1,337,345	$ 99,857	1,473,202
Less unamortized debt issuance costs	19,715		
	$ 1,317,630		

The Health Center provides management, dietary, laundry and maintenance services to Cedarwood. Fees received for these services are included as other revenue in the statements of operations and are as follows for the years ended September 30, 2018 and 2017:

		2018	2017
Management and accounting services	$	89,391	93,125
Dietary		405,180	393,158
Maintenance		12,272	11,305
Laundry		8,520	9,077
	$	515,363	506,665

A gain on equity investment in joint ventures of $113,569 and $94,161 is included with other revenue in the statements of operations for the years ended September 30, 2018 and 2017, respectively.

(8) Long-Term Debt and Capital Lease Obligations

Long-Term Debt

A summary of long-term debt at September 30, 2018 and 2017 is as follows:

		2018	2017
Promissory note payable to Diller Telephone Company, through the United States Department of Agriculture (USDA), payable in monthly installments of $5,537, including a 1% administrative fee, outstanding principal due October 2018, secured by an irrevocable letter of credit issued by The First National Bank of Fairbury, Nebraska. (A)	$	5,532	71,557
2.75% Revenue Bonds, Series 2012, issued by Hospital Authority No. 1 of Jefferson County, Nebraska, principal and interest payments are due through December 2032. (B)		4,818,703	5,089,366
		4,824,235	5,160,923
Less unamortized debt issuance costs		110,653	118,418
Total long-term debt, net	$	4,713,582	5,042,505

(A) On October 10, 2008, the Health Center closed on a ten year loan in the amount of $632,000 with the USDA. The loan was authorized by Section 313 of the Rural Electrification Act of 1936. The Rural Development Community Facilities Program provides direct and guaranteed loan and grant assistance to assist eligible public body and/or not-for-profit applicants in providing essential community facilities and services to eligible rural areas.

(B) On December 18, 2012, $5,800,000 of Revenue Bonds, Series 2012 were issued by Hospital Authority No. 1 of Jefferson County, Nebraska (Issuer), pursuant to the Indenture and Loan Agreement between the Issuer, American National Bank (Lender), and the Health Center (Borrower). Interest only payments were due and payable on the outstanding balance until January 2015, commencing January 2015, level monthly installments of principal and interest will be made until the maturity date of December 2032.

Scheduled principal payments on the long-term debt are as follows:

2019	$ 284,992
2020	287,009
2021	295,457
2022	303,801
2023	312,381
Thereafter	3,340,595
	4,824,235
Less unamortized debt issuance costs	110,653
	$ 4,713,582

(9) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2018 and 2017:

	2018	2017
Scholarships	$ 2,976	2,907
Donor designated for specific Health Center departments	153,081	110,834
	$ 156,057	113,741

Permanently restricted net assets as of September 30, 2018 and 2017 are as follows:

	2018	2017
Endowment	$ 50,754	50,754

(10) Other Revenue, Net

Other revenue consisted of the following as of September 30, 2018 and 2017:

	2018	2017
340B contract pharmacy revenue	$ 792,547	558,411
Cedarwood contract services	425,946	413,540
Cafeteria and dietary	158,840	147,787
Gain on equity investment in joint venture	113,570	94,161
Cedarwood management and accounting services	89,417	93,125
Other	17,561	11,684
	$ 1,597,881	1,318,708

The Health Center participates in the 340B Drug Pricing Program (340B Program). The 340B Program enables the Health Center to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases and to enter contracts with unrelated pharmacies who provide prescription drugs to Health Center outpatients. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near future.

(11) Professional Liability Insurance

The Health Center carries a professional liability policy (including malpractice) which provides $1,000,000 of coverage for injuries per occurrence and $3,000,000 aggregate coverage. The Health Center qualifies under the Nebraska Hospital Medical Liability Act (the Act). The Excess Liability Fund under the Act, on a claims-made basis, pays claims in excess of $500,000 for losses up to $2,250,000 per occurrence. The statutes limit covered claims above $2,250,000 and, in connection therewith, the Health Center carries an umbrella policy which also provides an additional $2,000,000 of professional liability coverage per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only the claims which have occurred and are reported to the insurance company while the coverage is in force.

The Health Center could have exposure on possible incidents that have occurred for which claims will be made in the future, should professional liability insurance not be obtained, should coverage be limited and/or not available, or should the Act change.

Accounting principles generally accepted in the United States of America require a healthcare provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. The Health Center does evaluate all incidents and claims along with prior claim experience to determine if a liability is to be recognized. For the years ending September 30, 2018 and 2017, management determined no liability should be recognized for asserted or unasserted claims. Management is not aware of any such claim that would have a material adverse impact on the accompanying financial statements.

(12) Retirement Plan

The Health Center adopted a defined contribution retirement plan covering substantially all full-time employees. Benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate when they complete certain service and age requirements. The Health Center matches 2.5% or 5.0% of the employee's covered compensation depending upon the employee's contributions and length of service. Participant interests are vested over a period from two to six years of service. Pension expense was $373,227 and $435,003 for 2018 and 2017, respectively.

(13) Concentrations of Credit Risk

The Health Center is located in Fairbury, Nebraska. The Health Center grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2018 and 2017 was as follows:

	2018	2017
Medicare	47%	40%
Medicaid	6	10
Other third-party payors	27	27
Private pay	20	23
	100%	100%

(14) Contingencies

The Health Center is involved in litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse effect on the Health Center’s future financial position or results from operations.

(15) Functional Expenses

The Health Center provides general healthcare services to residents within its geographic location. Expenses included in the statements of operations relate to the provision of these services.

Jefferson Community Health Center, Inc. d/b/a
Jefferson Community Health & Life **Exhibit 1**

Financial and Statistical Highlights
For the Years Ended September 30, 2018 and 2017

	2018	2017
Patient days:		
Adult and pediatric -		
Medicare	385	436
Other	158	264
	543	700
Swing bed -		
Skilled	422	588
Intermediate	34	45
Newborn	14	32
Total	1,013	1,365
Long-term care unit days	13,129	13,877
Observation equivalent days	532	502
Home health visits	1,915	2,411
Surgery cases	510	553
Emergency room visits	2,602	2,650
Number of employees - full-time equivalents	183.34	179.75