Jefferson Community Health Center, Inc.

Fairbury, Nebraska

Financial Statements and Supplementary Information
September 30, 2016 and 2015

Together with Independent Auditor's Report

Jefferson Community Health Center, Inc.

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SEIM JOHNSON

Independent Auditor's Report

To the Board of Directors of
Jefferson Community Health Center, Inc.
Fairbury, Nebraska:

Report on the Financial Statements

We have audited the accompanying financial statements of Jefferson Community Health Center, Inc. (Health Center) which comprise the balance sheets as of September 30, 2016 and 2015, 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, 2016 and 2015, 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 9, 2017.

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Jefferson Community Health Center, Inc.

Balance Sheets
September 30, 2016 and 2015

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,693,611	1,757,018
Short-term investments	3,166,766	3,059,929
Receivables -		
Patients, net of allowance for doubtful accounts		
$511,875 in 2016 and $364,000 in 2015	2,698,858	2,499,195
Related-party	50,652	49,140
Other	93,321	28,652
Inventories	447,932	372,722
Prepaid expenses	198,563	152,196
Estimated third-party payor settlements - Medicare and Medicaid	--	200,185
Total current assets	8,349,703	8,119,037
Investments limited as to use	3,129,943	2,968,048
Property and equipment, net	13,085,446	13,096,607
Investment in joint venture	507,704	424,743
Intangible asset, net	150,824	--
Deferred financing costs, net	126,183	133,948
Total assets	$ 25,349,803	24,742,383
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 329,689	321,364
Accounts payable -		
Trade	277,318	599,798
Property and equipment	10,854	100,000
Accrued interest	12,269	12,857
Accrued salaries, vacation and benefits payable	1,245,733	781,845
Estimated third-party payor settlements - Medicare and Medicaid	370,644	--
Total current liabilities	2,246,507	1,815,864
Long-term debt, net of current portion	5,160,902	5,490,578
Total liabilities	7,407,409	7,306,442
Net assets:		
Unrestricted	17,790,171	17,297,310
Temporarily restricted	101,469	87,877
Permanently restricted	50,754	50,754
Total net assets	17,942,394	17,435,941
Total liabilities and net assets	$ 25,349,803	24,742,383

See notes to financial statements

Jefferson Community Health Center, Inc.

Statements of Operations
For the Years Ended September 30, 2016 and 2015

	2016	2015
UNRESTRICTED REVENUE:		
Net patient service revenue before provision for bad debt	$ 18,537,127	17,154,833
Provision for bad debts	(592,736)	(458,902)
Net patient service revenue	17,944,391	16,695,931
Other revenue	814,340	820,590
Net assets released from restrictions used for operations	20,841	7,627
Total unrestricted revenue	18,779,572	17,524,148
EXPENSES:		
Salaries and wages	8,150,540	6,979,162
Employee benefits	2,022,239	1,513,384
Supplies	3,159,779	3,286,784
Professional fees and purchased services	1,916,869	1,958,820
Repairs, maintenance and utilities	1,211,851	1,127,967
Other expenses	542,412	511,046
Depreciation and amortization	1,435,583	1,514,917
Interest	154,714	138,774
Total expenses	18,593,987	17,030,854
OPERATING INCOME	185,585	493,294
NONOPERATING GAINS (LOSSES):		
Investment income	147,500	107,544
Gifts, grants and bequests	136,629	27,419
Fundraising expenses	(17,765)	(17,128)
Nonoperating gains, net	266,364	117,835
EXCESS OF REVENUE OVER EXPENSES	451,949	611,129
CHANGES IN NET UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	8,994	(81,623)
GIFTS, GRANTS AND BEQUESTS FOR PURCHASE OF PROPERTY AND EQUIPMENT	31,918	62,831
INCREASE IN UNRESTRICTED NET ASSETS	$ 492,861	592,337

See notes to financial statements

Jefferson Community Health Center, Inc.

Statements of Changes in Net Assets
For the Years Ended September 30, 2016 and 2015

	2016	2015
UNRESTRICTED NET ASSETS:		
Operating income	$ 185,585	493,294
Nonoperating gains, net	266,364	117,835
Changes in net unrealized gains and losses on other than trading securities	8,994	(81,623)
Gifts, grants and bequests for purchase of property and equipment	31,918	62,831
Increase in unrestricted net assets	492,861	592,337
TEMPORARILY RESTRICTED NET ASSETS:		
Restricted gifts, grants and bequests	34,433	11,152
Net assets released from restrictions used for operations	(20,841)	(7,627)
Increase in temporarily restricted net assets	13,592	3,525
INCREASE IN NET ASSETS	506,453	595,862
NET ASSETS, beginning of year	17,435,941	16,840,079
NET ASSETS, end of year	$ 17,942,394	17,435,941

See notes to financial statements

Jefferson Community Health Center, Inc.

Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 506,453	595,862
Adjustments to reconcile the change in net assets to net cash provided by operating activities -		
Depreciation and amortization	1,435,583	1,514,917
Gain on investment in joint venture	(82,961)	(152,064)
Change in unrealized gains and losses on other than trading securities	(8,994)	81,623
Restricted gifts, grants and bequests	(66,351)	(73,983)
(Increase) decrease in current assets -		
Receivables -		
Patients	(199,663)	(404,005)
Related-party	(1,512)	(13,319)
Other	(64,669)	(17,179)
Inventories	(75,210)	(25,307)
Prepaid expenses	(46,367)	(57,158)
Estimated third-party payor settlements - Medicare and Medicaid	200,185	(200,185)
Increase (decrease) in current liabilities -		
Accounts payable - trade	(322,480)	76,960
Accrued interest	(588)	12,857
Accrued salaries, vacation and benefits payable	463,888	17,984
Estimated third-party payor settlements - Medicare and Medicaid	370,644	(911,098)
Net cash provided by operating activities	2,107,958	445,905
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including investments limited as to use	(843,136)	(305,581)
Proceeds from sale of investments, including investments limited as to use	583,398	214,356
Purchase of intangible asset	(172,370)	--
Purchase of property and equipment, net	(1,484,257)	(2,047,105)
Net cash used in investing activities	(1,916,365)	(2,138,330)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long term debt	--	1,590,499
Principal payments on long-term debt	(321,351)	(253,778)
Restricted gifts, grants and bequests	66,351	73,983
Net cash provided by (used in) financing activites	(255,000)	1,410,704
NET DECREASE IN CASH AND CASH EQUIVALENTS	(63,407)	(281,721)
CASH AND CASH EQUIVALENTS, beginning of year	1,757,018	2,038,739
CASH AND CASH EQUIVALENTS, end of year	$ 1,693,611	1,757,018
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 155,302	125,917

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. (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 25-bed critical access hospital, a 40-bed long-term care facility, a 12,000 square-foot wellness 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.

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 Jefferson Community Health Center 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.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. Several provisions have been implemented while other provisions are slated to take effect at specified times over approximately the next decade.

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.

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 charity care policy as described in Note 1(N).

F. Inventories

Inventories of drugs and other supplies are stated at the lower of cost (first-in, first-out) or market.

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 2016 and 2015, 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 year ended September 30, 2016 amortization expense of $21,546 is included with depreciation and amortization expense on the statements of operations.

J. Deferred Financing Costs, Net

Costs incurred in connection with the issuance of debt are amortized over the term of the related revenue bonds using the straight-line method. For the years ended September 30, 2016 and 2015 amortization expense of $7,765 and $7,765 is included with depreciation and amortization expense on the statements of operations, respectively.

K. 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.

L. 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).

M. 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.

N. Charity Care

The Health Center provides care to patients who meet certain criteria under its 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.

O. 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.

P. 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.

Q. Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, investments, patient accounts receivable, current liabilities and long-term debt obligations. Management's estimate of fair value of investments is described in Note 4. The carrying amounts reported in the balance sheets for cash and cash equivalents, patient accounts receivable and current liabilities approximate fair value due to the short-term nature of these financial instruments. The carrying value of long-term debt obligations approximates fair value since the interest rates closely reflect current market rates.

R. 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, 2016 and 2015, the Health Center had no uncertain tax positions accrued.

S. 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.

T. Recent Accounting Pronouncements

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU will be effective for the Health Center for fiscal years beginning after December 15, 2015. The adoption of this standard is not expected to have a material impact on the financial statements.

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (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.

U. Subsequent Events

The Health Center considered events occurring through January 9, 2017 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, 2016				
		Medicare	Medicaid	Commercial	Self Pay	Total
Gross patient charges	$	12,250,993	2,503,282	6,048,297	2,394,915	23,197,487
Less: contractual allowances and discounts		3,267,470	440,502	811,113	141,275	4,660,360
Net patient service revenue before provision for bad debt	$	8,983,523	2,062,780	5,237,184	2,253,640	18,537,127

		September 30, 2015				
		Medicare	Medicaid	Commercial	Self Pay	Total
Gross patient charges	$	11,000,991	2,149,301	5,758,335	2,048,017	20,956,644
Less: contractual allowances and discounts		2,595,379	421,791	596,736	187,905	3,801,811
Net patient service revenue before provision for bad debt	$	8,405,612	1,727,510	5,161,599	1,860,112	17,154,833

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, 2014.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. As required by law, President Obama issued a sequestration order on March 1, 2013. 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:

		2016	2015
Gross patient charges:			
Inpatient services	$	3,562,115	3,136,024
Outpatient services		16,239,385	15,348,327
Clinic		852,840	--
Long-term care services		2,543,147	2,472,293
		23,197,487	20,956,644
Less deductions from gross patient charges:			
Medicare		3,267,470	2,595,379
Medicaid		440,502	421,791
Other third-party adjustments		811,113	596,736
Charity care		141,275	187,905
		4,660,360	3,801,811
Net patient service revenue before provision for bad debt	$	18,537,127	17,154,833

Revenue from the Medicare and Medicaid programs accounted for approximately 48% and 11%, respectively, of the Health Center's net patient revenue for the year ended September 30, 2016 and approximately 49% and 10%, respectively, for the year ended September 30, 2015. 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 2016 and 2015 net patient service revenue increased approximately $240,000 and $165,000, 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) 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, 2016 and 2015 were approximately $132,000 and $131,000, 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:

Money market funds and accrued interest – The fair value of money market funds and accrued interest are classified as Level 1 as these funds are valued using quoted market prices.

Certificates of deposit – Investments in certificates of deposit 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 of active markets.

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. They 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, 2016 and 2015:

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
Money market funds	$ 543,767	543,767	--	--
Certificates of deposit	56,754	--	56,754	--
Repurchase agreements	2,840,000	--	2,840,000	--
Fixed income securities				
Corporate bonds	1,255,606	--	1,255,606	--
Federal agency securities	313,738	--	313,738	--
Municipal bonds	79,440	--	79,440	--
Mutual funds				
International	220,829	220,829	--	--
Large cap	554,880	554,880	--	--
Mid cap	40,636	40,636	--	--
Small cap	66,837	66,837	--	--
Fixed income	304,826	304,826	--	--
Accrued interest	19,396	19,396	--	--
	$ 6,296,709	1,751,171	4,545,538	--

	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Money market funds	$ 374,282	374,282	--	--
Certificates of deposit	56,754	--	56,754	--
Repurchase agreements	2,840,000	--	2,840,000	--
Fixed income securities				
Corporate bonds	1,233,063	--	1,233,063	--
Federal agency securities	395,134	--	395,134	--
Municipal bonds	27,563	--	27,563	--
Mutual funds				
International	191,474	191,474	--	--
Large cap	569,838	569,838	--	--
Mid cap	41,973	41,973	--	--
Small cap	41,898	41,898	--	--
Fixed income	236,157	236,157	--	--
Accrued interest	19,841	19,841	--	--
	$ 6,027,977	1,475,463	4,552,514	--

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

Short-term investments and investments limited as to use are stated at fair market value. The composition of short-term investments and investments limited as to use, as of September 30, 2016 and 2015 is set forth in the following table:

		2016	2015
Short-term investments:			
Money market funds	$	326,766	219,929
Repurchase agreements		2,840,000	2,840,000
Total short-term investments	$	3,166,766	3,059,929
Investments limited as to use:			
Board Designated -			
Money market funds	$	121,532	72,476
Fixed income securities		1,648,784	1,655,760
Mutual funds		1,188,008	1,081,340
Accrued interest		19,396	19,841
Total board designated		2,977,720	2,829,417
By Donor -			
Money market funds		95,469	81,877
Certificates of deposit		56,754	56,754
Total donor		152,223	138,631
Total investments limited as to use	$	3,129,943	2,968,048

Investment return for the years ended September 30, 2016 and 2015 is summarized as follows:

		2016	2015
Interest and dividends	$	123,681	120,743
Investment management fees		(19,883)	(19,477)
Net realized gains		43,702	6,278
Change in unrealized gains (losses)		8,994	(81,623)
Total investment return	$	156,494	25,921
Included in nonoperating gains, net	$	147,500	107,544
Reported separately as a change in unrestricted net assets		8,994	(81,623)
Total investment return	$	156,494	25,921

(6) Property and Equipment

Property and equipment as of September 30, 2016 and 2015 is summarized as follows:

		2016	2015
Land and improvements	$	194,271	160,793
Buildings and fixed equipment		20,038,342	19,138,953
Major moveable equipment		5,503,932	5,369,683
Construction in progress		7,071	7,071
		25,743,616	24,676,500
Less accumulated depreciation		12,658,170	11,579,893
Property and equipment, net	$	13,085,446	13,096,607

Depreciation expense of $1,406,272 and $1,507,152 in 2016 and 2015, respectively, is included in the accompanying statements of operations.

(7) Investment in Joint Venture

Investment in joint venture is composed of the following:

		2016	2015
Fairbury Assisted Living Facility	$	507,704	424,743

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:

		2016	2015
Condensed Balance Sheets			
Total current assets	$	399,413	321,440
Assets limited as to use, net of current portion		280,149	280,983
Property and equipment, net		2,708,236	2,967,911
Other assets		34,014	41,411
Total assets	$	3,421,812	3,611,745
Long-term debt payable, current portion	$	335,829	332,747
Other current liabilities		106,114	123,690
Long-term debt payable, long-term portion		1,897,166	2,232,992
Other long-term liabilities		67,296	72,829
Total liabilities	$	2,406,405	2,762,258
Net assets	$	1,015,407	849,487
Health Center's investment in joint venture	$	507,704	424,743

	2016	2015
Condensed Statements of Operations		
Total revenue	$ 1,866,344	1,839,248
Expenses:		
Salaries and employee benefits	583,258	492,018
Other expenses	767,598	675,355
Depreciation and amortization	267,217	262,850
Interest expense	85,064	110,304
Total expenses	1,703,137	1,540,527
Operating gain	163,207	298,721
Nonoperating gains, net	3,744	3,657
Excess of revenue over expenses	166,951	302,378
Changes in net unrealized gains on other than trading securities	(1,031)	1,750
Increase in unrestricted net assets	$ 165,920	304,128
Health Center's equity in increase in unrestricted net assets of joint venture	$ 82,961	152,064

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 also made an additional principal payment of $450,000 toward the outstanding balance during 2015.

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

	Principal	Interest	Total
2017	$ 335,829	77,122	412,951
2018	348,310	66,231	414,541
2019	355,893	54,013	409,906
2020	368,548	40,658	409,206
2021	564,415	23,986	588,401
Thereafter	260,000	5,460	265,460
	$ 2,232,995	267,470	2,500,465

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, 2016 and 2015:

		2016	2015
Management and accounting services	$	93,318	93,160
Dietary		417,809	368,526
Maintenance		7,682	6,649
Laundry		8,011	8,781
	$	526,820	477,116

A gain on equity investment in joint ventures of $82,961 and $152,064 is included with other revenue in the statements of operations for the years ended September 30, 2016 and 2015, respectively.

(8) Long-Term Debt and Capital Lease Obligations

Long-Term Debt

A summary of long-term debt at September 30, 2016 and 2015 is as follows:

		2016	2015
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)	$	136,926	201,645
2.75% Revenue Bonds, Series 2012, issued by Hospital Authority No. 1 of Jefferson County, Nebraska. Interest only payments are due and payable on the outstanding balance until January 2015. Equal principal and interest payments are due thereafter through December 2032. (B)		5,353,665	5,610,297
		5,490,591	5,811,942
Less current portion		329,689	321,364
	$	5,160,902	5,490,578

(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:

2017	$ 329,689
2018	337,809
2019	284,992
2020	287,009
2021	295,457
Thereafter	3,955,635
	$ 5,490,591

(9) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2016 and 2015:

	2016	2015
Scholarships	$ 2,839	2,754
Donor designated for specific Health Center departments	98,630	85,123
	$ 101,469	87,877

Permanently restricted net assets as of September 30, 2016 and 2015 are as follows:

	2016	2015
Endowment	$ 50,754	50,754

(10) Other Revenue, Net

Other revenue consisted of the following as of September 30, 2016 and 2015:

	2016	2015
CMS electronic health records incentive payments	$ 42,385	51,541
Cafeteria and dietary	143,259	126,788
Cedarwood contract services	433,502	383,956
Cedarwood management and accounting services	93,318	93,160
Gain on equity investment in joint venture	82,961	152,064
Other	18,915	13,081
	$ 814,340	820,590

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among healthcare providers. During fiscal year 2016 and 2015, the Health Center qualified for the financial incentive payments by attesting it met specific criteria set by the Center for Medicare and Medicaid services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2016. The incentive amount is computed using several elements, one of which includes using the value of undepreciated assets required to implement the EHR system. The Health Center has elected to record $42,385 and $51,541 for the years ended September 30, 2016 and 2015, respectively, of the incentive payment as other operating revenue in the period earned, and defer the remaining amount of the receivable related to future Medicare reimbursement. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

(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 $1,000,000 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, 2016 and 2015, 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 $272,575 and $233,551 for 2016 and 2015, 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, 2016 and 2015 was as follows:

	2016	2015
Medicare	39%	41%
Medicaid	11	9
Other third-party payors	27	27
Private pay	23	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. **Exhibit 1**

Financial and Statistical Highlights
For the Years Ended September 30, 2016 and 2015

	2016	2015
Patient days:		
Adult and pediatric -		
Medicare	391	361
Other	185	187
	576	548
Swing bed -		
Skilled	737	588
Intermediate	35	19
Newborn	46	52
Total	1,394	1,207
Long-term care unit days	13,972	13,090
Observation equivalent days	392	378
Home health visits	2,976	3,169
Surgery cases	517	557
Emergency room visits	2,558	2,510
Number of employees - full-time equivalents	157.98	154.14