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

Jefferson Community Health & Life

Fairbury, Nebraska

Financial Statements and Supplementary Information
September 30, 2019 and 2018

Together with Independent Auditor's Report

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

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SEIM JOHNSON

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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 17 to the financial statements, the Health Center adopted new accounting guidance related to Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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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,
December 19, 2019.

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

Balance Sheets
September 30, 2019 and 2018

		2019	2018
ASSETS			
Current assets:			
Cash and cash equivalents	$	5,106,730	2,047,491
Short-term investments		--	2,340,000
Receivables -			
Patients, net of allowance for doubtful accounts $594,306 in 2019 and $424,142 in 2018		3,422,566	2,996,676
Related-party		54,478	37,594
Other		121,656	89,247
Inventories		432,556	381,817
Prepaid expenses		331,782	308,379
Estimated third-party payor settlements - Medicare and Medicaid		174,046	265,787
Total current assets		9,643,814	8,466,991
Investments limited as to use		5,174,195	5,206,299
Property and equipment, net		11,223,070	11,525,500
Investment in joint venture		872,076	715,435
Total assets	$	26,913,155	25,914,225
LIABILITIES AND NET ASSETS			
Current liabilities:			
Current portion of long-term debt	$	287,699	284,992
Accounts payable -			
Trade		264,040	377,314
Property and equipment		17,500	--
Accrued interest		9,708	9,939
Accrued salaries, vacation and benefits payable		1,338,693	1,261,592
Total current liabilities		1,917,640	1,933,837
Long-term debt, net of current portion		4,148,266	4,428,590
Total liabilities		6,065,906	6,362,427
Net assets:			
Without donor restrictions		20,656,980	19,344,987
With donor restrictions		190,269	206,811
Total net assets		20,847,249	19,551,798
Total liabilities and net assets	$	26,913,155	25,914,225

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, 2019 and 2018

	2019	2018
REVENUE WITHOUT DONOR RESTRICTIONS:		
Net patient service revenue before provision for bad debt	$ 21,684,957	21,080,350
Provision for bad debts	(575,740)	(268,095)
Net patient service revenue	21,109,217	20,812,255
Other revenue	1,896,941	1,597,881
Net assets released from restrictions used for operations	24,735	13,843
Total revenue without donor restrictions	23,030,893	22,423,979
EXPENSES:		
Salaries and wages	10,613,292	10,520,135
Employee benefits	2,400,864	2,358,010
Supplies	3,996,606	3,949,052
Professional fees and purchased services	1,444,268	1,416,404
Repairs, maintenance and utilities	1,361,406	1,375,819
Other expenses	750,099	792,116
Depreciation and amortization	1,417,602	1,397,764
Interest	137,904	146,005
Total expenses	22,122,041	21,955,305
OPERATING INCOME	908,852	468,674
NONOPERATING GAINS (LOSSES):		
Investment income	179,285	379,681
Gifts, grants and bequests	57,805	49,212
Fundraising expenses	(16,474)	(16,095)
Nonoperating gains, net	220,616	412,798
EXCESS OF REVENUE OVER EXPENSES	1,129,468	881,472
CHANGES IN NET UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	136,749	(280,841)
GIFTS, GRANTS AND BEQUESTS FOR PURCHASE OF PROPERTY AND EQUIPMENT	45,776	--
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	$ 1,311,993	600,631

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, 2019 and 2018

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating income	$ 908,852	468,674
Nonoperating gains, net	220,616	412,798
Changes in net unrealized gains and losses on other than trading securities	136,749	(280,841)
Gifts, grants and bequests for purchase of property and equipment	45,776	--
Increase in net assets without donor restrictions	1,311,993	600,631
NET ASSETS WITH DONOR RESTRICTIONS		
Restricted gifts, grants and bequests	8,193	56,159
Net assets released from restrictions used for operations	(24,735)	(13,843)
Increase (decrease) in net assets with donor restrictions	(16,542)	42,316
CHANGE IN NET ASSETS	1,295,451	642,947
NET ASSETS, beginning of year, as restated	19,551,798	18,908,851
NET ASSETS, end of year	$ 20,847,249	19,551,798

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, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 1,295,451	642,947
Adjustments to reconcile the change in net assets to net cash provided by operating activities -		
Depreciation and amortization	1,417,602	1,397,764
Amortization of debt issuance costs	7,765	7,765
Gain on investment in joint venture	(156,641)	(113,570)
Gain on sale of property and equipment	(5,782)	--
Change in unrealized gains and losses on other than trading securities	(136,749)	280,841
Restricted gifts, grants and bequests	(53,969)	(56,159)
(Increase) decrease in current assets -		
Receivables -		
Patients	(425,890)	(394,231)
Related-party	(16,884)	19,263
Other	(32,409)	9,009
Inventories	(50,739)	52,897
Prepaid expenses	(23,403)	(86,427)
Estimated third-party payor settlements - Medicare and Medicaid	91,741	(265,787)
Increase (decrease) in current liabilities -		
Accounts payable - trade	(113,274)	123,254
Accrued interest	(231)	(1,724)
Accrued salaries, vacation and benefits payable	77,101	67,862
Estimated third-party payor settlements - Medicare and Medicaid	--	(864,564)
Net cash provided by operating activities	1,873,689	819,140
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments, including investments limited as to use	(250,664)	(2,358,490)
Proceeds from sale of investments, including investments limited as to use	2,759,517	1,670,681
Purchase of property and equipment, net	(1,091,890)	(514,770)
Net cash provided by (used in) investing activities	1,416,963	(1,202,579)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on long-term debt	(285,382)	(336,688)
Restricted gifts, grants and bequests	53,969	56,159
Net cash used in financing activites	(231,413)	(280,529)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,059,239	(663,968)
CASH AND CASH EQUIVALENTS, beginning of year	2,047,491	2,711,459
CASH AND CASH EQUIVALENTS, end of year	$ 5,106,730	2,047,491
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 130,370	139,964

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. On February 21, 2019, the Plymouth Clinic became 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 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 2019 and 2018, 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 6 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, 2019 and 2018, amortization expense of $-0-, and $64,639, respectively is included with depreciation and amortization expense on the statements of operations.

J. Net Assets

The financial statements report the changes in and totals of each net asset class based on the existence or absence of donor restrictions, as described below:

Net assets without donor restrictions are those net assets not subject to donor-imposed restrictions and may be expended for any purpose. Net assets without donor restrictions include undesignated net assets and net assets subject to designation by the Board of Directors.

Net assets with donor restrictions are net assets subject to stipulations imposed by donors. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

K. Performance Indicator

The statements of operations include excess of revenue over expenses as a performance indicator. Changes in net assets without donor restrictions 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 partially 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 estimated 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 support with donor restrictions 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, net assets with donor restrictions are reclassified as net assets without donor restrictions 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 reported as contributions without donor restrictions 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (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, 2019 and 2018, 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. Functional Allocation of Expenses

The costs of providing healthcare services and supporting services activities have been summarized on the basis of natural classification in the statements of operations. Note 16 presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

S. Reclassification

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 reporting format.

T. Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (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, 2020, 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.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*. The amendments in this update make improvements to generally accepted accounting principles with primary changes that include:

- Equity investments are required to be measured at fair value with unrealized changes in fair value recognized in the performance indicator. Unrealized changes in fair value can no longer be reported outside the performance indicator as a change in net assets.
- Financial instruments measured at amortized cost are no longer required to be disclosed at fair value.

The standard will be effective for fiscal years beginning after December 15, 2018. A cumulative-effect adjustment to the statement of financial position as of the beginning of the fiscal year of adoption is the means to apply the amendments, if necessary. The Health Center is currently evaluating the impact of adopting this new standard.

U. *Change in Accounting Principle*

During 2019, the Health Center adopted provisions of FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU made several changes to accounting and financial reporting standards for not-for-profit entities related to net assets and disclosure requirements.

See Note 17 for additional information regarding the impact of these changes in the Health Center's financial statements.

V. *Subsequent Events*

The Health Center considered events occurring through December 19, 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, 2019				
		Medicare	Medicaid	Commercial	Self Pay	Total
Gross patient charges	$	16,035,006	2,457,702	7,612,089	2,824,025	28,928,822
Less: contractual allowances and discounts		5,369,524	730,812	1,071,923	71,606	7,243,865
Net patient service revenue before provision for bad debt	$	10,665,482	1,726,890	6,540,166	2,752,419	21,684,957

		September 30, 2018				
		Medicare	Medicaid	Commercial	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 before provision for bad debt	$	10,735,115	1,902,862	6,119,181	2,323,192	21,080,350

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, 2017.

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:

		2019	2018
Gross patient charges:			
Inpatient services	$	2,775,065	3,637,125
Outpatient services		20,434,518	18,451,200
Clinic		3,076,777	2,955,955
Long-term care services		2,642,462	2,560,121
		28,928,822	27,604,401
Less deductions from gross patient charges:			
Medicare		5,369,524	4,908,628
Medicaid		730,812	471,926
Other third-party adjustments		1,071,923	1,002,873
Charity care		71,606	140,624
		7,243,865	6,524,051
Net patient service revenue before provision for bad debt	$	21,684,957	21,080,350

Revenue from the Medicare and Medicaid programs accounted for approximately 49% and 8%, respectively, of the Health Center's net patient revenue for the year ended September 30, 2019 and approximately 51% and 9%, respectively, for the year ended September 30, 2018. 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 2019 and 2018 net patient service revenue increased approximately $133,000 and $57,000, 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) 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, 2019 and 2018 were approximately $48,000 and $99,000, respectively.

(4) Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

		2019	2018
Financial Assets			
Cash and cash equivalents	$	5,106,730	2,047,491
Short-term investments		--	2,340,000
Receivables -			
Patients		3,422,566	2,996,676
Related-party		54,478	37,594
Other		121,656	89,247
Estimated third-party payor settlements - Medicare and Medicaid		174,046	265,787
Investments limited as to use		5,174,195	5,206,299
Total financial assets		14,053,671	12,983,094
Less investments limited as to use:			
By board designation for future capital improvements		4,983,926	4,999,488
By donor restriction		190,269	206,811
Total financial investments limited as to use		5,174,195	5,206,299
Financial assets available for general expenditure	$	8,879,476	7,776,795

The Board of Directors of the Health Center has designated $4,983,926 and $4,999,488 in 2019 and 2018 respectively, to be used for future capital improvements. These funds are not intended to be spent from, however, these amounts could be made available for expenditure by an action of the Board of Directors, should that be necessary.

The Health Center's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The Health Center's liquidity management plan includes investing cash in excess of daily requirements in a sweep account. The sweep account automatically transfers funds that exceed $250,000 into a higher interest-earning account at the close of each business day that is fully FDIC insured.

(5) 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.

For the years ended September 30, 2019 and 2018, the application of valuation techniques applied to similar assets and liabilities has been consistent.

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, 2019 and 2018:

	September 30, 2019			
	Total	Level 1	Level 2	Level 3
Fixed income securities				
Corporate bonds	$ 751,635	--	751,635	--
US treasury securities	1,256,865	1,256,865	--	--
Federal agency securities	100,984	--	100,984	--
Municipal bonds	26,718	--	26,718	
Mutual funds				
Money Market	15,911	15,911	--	--
International	284,688	284,688	--	--
Large cap	868,951	868,951	--	--
Small cap	212,447	212,447	--	--
Fixed income	1,447,479	1,447,479	--	--
	$ 4,965,678	4,086,341	879,337	--
Investments not subject to fair value measurement:				
Cash and cash equivalents	138,515			
Certificates of deposit	51,754			
Accrued interest	18,248			
Total	$ 5,174,195			

	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	155,057			
Certificates of deposit	51,754			
Accrued interest	40,761			
Total	$ 7,546,299			

(6) 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, 2019 and 2018 is set forth in the following table:

		2019	2018
Short-term investments,			
Repurchase agreements	$	--	2,340,000
Investments limited as to use:			
Board designated -			
Fixed income securities	$	2,136,202	2,737,407
Mutual funds		2,829,476	2,221,320
Accrued interest		18,248	40,761
Total board designated		4,983,926	4,999,488
By donor -			
Cash and cash equivalents		138,515	155,057
Certificates of deposit		51,754	51,754
Total by donor		190,269	206,811
Total investments limited as to use	$	5,174,195	5,206,299

Investment return for the years ended September 30, 2019 and 2018 is summarized as follows:

		2019	2018
Interest and dividends	$	192,367	145,568
Investment management fees		--	(3,271)
Net realized gains (losses)		(13,082)	237,384
Change in unrealized gains (losses)		136,749	(280,841)
Total investment return	$	316,034	98,840
Included in nonoperating gains, net	$	179,285	379,681
Reported separately as a change in net assets without donor restrictions		136,749	(280,841)
Total investment return	$	316,034	98,840

(7) Property and Equipment

Property and equipment as of September 30, 2019 and 2018 is summarized as follows:

		2019	2018
Land and improvements	$	265,397	318,529
Buildings and fixed equipment		19,812,611	19,749,460
Major moveable equipment		5,991,417	5,596,862
Construction in progress		100,330	--
		26,169,755	25,664,851
Less accumulated depreciation		14,946,685	14,139,351
Property and equipment, net	$	11,223,070	11,525,500

Depreciation expense of $1,417,602 and $1,333,125 in 2019 and 2018, respectively, is included in the accompanying statements of operations.

On September 20, 2019, the Health Center entered into an agreement with Cerner Corporation (Cerner) to purchase an electronic health record system and related services. The contract is a 10-year agreement through October 1, 2029. The contract contains implementation fees of $1.7 million to be paid quarterly over a seven-year period along with monthly operating fees of $31,317 during the term of the contract. As of September 30, 2019, $83,199 of costs associated with the Cerner contract were included in construction in progress. Estimated completion date is June 2020.

(8) Investment in Joint Venture

Investment in joint venture is composed of the following:

		2019	2018
Fairbury Assisted Living Facility	$	872,076	715,435

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:

		2019	2018
Condensed Balance Sheets			
Total current assets	$	451,926	340,611
Assets limited as to use, net of current portion		282,275	283,747
Property and equipment, net		2,075,389	2,281,468
Total assets	$	2,809,590	2,905,826
Long-term debt payable, current portion	$	300,000	364,517
Other current liabilities		118,977	94,286
Long-term debt payable, long-term portion		561,200	953,113
Other long-term liabilities		85,261	63,040
Total liabilities	$	1,065,438	1,474,956
Net assets	$	1,744,152	1,430,870
Health Center's investment in joint venture	$	872,076	715,435

Condensed Statements of Operations		2019	2018
Total revenue	$	1,942,276	1,870,473
Expenses:			
Salaries and employee benefits		591,834	597,585
Other expenses		797,513	715,873
Depreciation and amortization		211,600	266,056
Interest expense		47,190	62,776
Total expenses		1,648,137	1,642,290
Operating gain		294,139	228,183
Nonoperating gains, net		8,739	7,256
Excess of revenue over expenses		302,878	235,439
Changes in net unrealized gains on other than trading securities		10,404	(8,298)
Increase in net assets without donor restrictions	$	313,282	227,141
Health Center's equity in increase in net assets without donor restrictions of joint venture	$	156,641	113,570

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 October 23, 2019, Cedarwood called for redemption of $160,000 of the Series 2012 bonds and paid $2,240 of interest outstanding on the called bonds.

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

		Principal		Interest	Total
2020	$	300,000		29,145	329,145
2021		315,000		17,220	332,220
2022		260,000		5,460	265,460
		875,000	$	51,825	926,825
Less unamortized debt issuance costs		13,800			
	$	861,200			

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, 2019 and 2018:

		2019	2018
Management and accounting services	$	97,205	89,391
Dietary		449,987	405,180
Maintenance		13,898	12,272
Laundry		8,574	8,520
	$	569,664	515,363

A gain on equity investment in joint ventures of $156,641 and $113,570 is included with other revenue in the statements of operations for the years ended September 30, 2019 and 2018, respectively.

(9) Long-Term Debt and Capital Lease Obligations

Long-Term Debt

A summary of long-term debt at September 30, 2019 and 2018 is as follows:

		2019	2018
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, paid in full in October 2018.	$	--	5,532
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. (A)		4,538,853	4,818,703
		4,538,853	4,824,235
Less unamortized debt issuance costs		102,888	110,653
Total long-term debt, net	$	4,435,965	4,713,582

(A) 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:

2020	$	287,699
2021		295,455
2022		303,799
2023		312,379
2024		320,952
Thereafter		3,018,569
		4,538,853
Less unamortized debt issuance costs		102,888
	$	4,435,965

(10) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30, 2019 and 2018:

		2019	2018
Subject to expenditure for specified purpose:			
Scholarships	$	2,341	2,976
Donor designated for specific Health Center departments		137,174	153,081
	$	139,515	156,057
Endowments,			
Subject to the Health Center's spending policy and appropriation	$	50,754	50,754

(11) Other Revenue, Net

Other revenue consisted of the following as of September 30, 2019 and 2018:

		2019	2018
340B contract pharmacy revenue	$	980,190	792,547
Cedarwood contract services		472,459	425,946
Cafeteria and dietary		169,677	158,840
Gain on equity investment in joint venture		156,641	113,570
Cedarwood management and accounting services		97,205	89,417
Other		20,769	17,561
	$	1,896,941	1,597,881

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.

(12) 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, 2019 and 2018, 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.

(13) 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 $375,638 and $373,227 for 2019 and 2018, respectively.

(14) 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 gross receivables from patients and third-party payors at September 30, 2019 and 2018 was as follows:

	2019	**2018**
Medicare	35%	47%
Medicaid	7	6
Other third-party payors	38	27
Private pay	20	20
	100%	100%

(15) 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.

(16) Functional Expenses

The table presented below illustrates the Health Center's expenses by both their nature and their function for the year ended June 30, 2019 and 2018:

	2019		
	Program Services	Support Services	
	Healthcare Services	Management and General	Total
Salaries and wages	$ 9,874,126	739,166	10,613,292
Employee benefits	2,222,544	178,320	2,400,864
Supplies	3,946,970	49,636	3,996,606
Professional fees and purchased services	1,141,999	302,269	1,444,268
Repairs, maintenance and utilities	1,232,020	129,386	1,361,406
Other expenses	379,476	370,623	750,099
Depreciation and amortization	1,317,567	100,035	1,417,602
Interest	128,173	9,731	137,904
	$ 20,242,875	1,879,166	22,122,041

	2018		
	Program Services	Support Services	
	Healthcare Services	Management and General	Total
Salaries and wages	$ 9,723,044	797,091	10,520,135
Employee benefits	2,167,609	190,401	2,358,010
Supplies	3,874,668	74,384	3,949,052
Professional fees and purchased services	1,099,126	317,278	1,416,404
Repairs, maintenance and utilities	1,260,342	115,477	1,375,819
Other expenses	371,577	420,539	792,116
Depreciation and amortization	1,299,129	98,635	1,397,764
Interest	135,702	10,303	146,005
	$ 19,931,197	2,024,108	21,955,305

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function of the Health Center. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated based on square footage included utilities, depreciation, and interest expense. Expenses allocated on the basis of management time and effort are employee benefits and information technology expenses.

(17) Change in Accounting Principle

Effective October 1, 2018, the Health Center adopted the provisions of FASB ASU 2016-14 *Not-for-Profit Entities* in 2018. ASU 2016-14 made several changes to accounting and financial reporting for not-for-profit entities, including changes to the presentation of net assets, qualitative and quantitative information of how an entity manages liquidity and availability of financial assets to meet needs for expenditures, reporting of expenses by natural classification and functional classification, as well as expanded footnote disclosures. As a result of adopting ASU 2016-14, net assets previously described as unrestricted are now identified as net assets without donor restrictions and net assets previously described as temporarily or permanently restricted are now identified as net assets with donor restrictions.

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

Jefferson Community Health & Life — Exhibit 1

Financial and Statistical Highlights
For the Years Ended September 30, 2019 and 2018

	2019	2018
Patient days:		
Adult and pediatric -		
Medicare	319	385
Other	56	158
	375	543
Swing bed -		
Skilled	452	422
Intermediate	37	34
Newborn	--	14
Total	864	1,013
Long-term care unit days	12,870	13,129
Observation equivalent days	577	532
Home health visits	2,263	1,915
Surgery cases	489	510
Emergency room visits	2,477	2,602
Clinic visits	17,454	16,639
Fitness center visits	49,270	52,344
Number of employees - full-time equivalents	185.42	183.34