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

Jefferson Community Health & Life

Fairbury, Nebraska

Financial Statements and Supplementary Information
September 30, 2021

Together with Independent Auditor's Report

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SEIM JOHNSON
SOLUTIONS WITH VISION

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 sheet as of September 30, 2021, the related statements of operations, changes in net assets, and cash flows for the year 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 audit. We conducted our audit 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, 2021, and the results of its operations, changes in net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

SEIM JOHNSON, LLP
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Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2021, the Health Center adopted new accounting guidance related to Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606): Revenue Recognition.* Our opinion is not modified with respect to this matter.

Other Matter

Our audit was 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 audit 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 20, 2022.

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

Balance Sheet
September 30, 2021

		2021
ASSETS		
Current assets:		
Cash and cash equivalents	$	6,986,834
Receivables -		
Patients		2,271,895
Related-party		64,871
Other		73,456
Patient customer contracts		1,803,338
Inventories		399,209
Prepaid expenses		144,358
Total current assets		11,743,961
Investments limited as to use		8,258,563
Property and equipment, net		18,968,610
Investment in joint venture		1,258,887
Total assets	$	40,230,021
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$	605,900
Accounts payable -		
Trade		569,471
Property and equipment		955,126
Accrued interest		9,224
Accrued salaries, vacation and benefits payable		1,303,712
Refundable advances		3,218,897
Estimated third-party payor settlements - Medicare and Medicaid		115,169
Total current liabilities		6,777,499
Long-term debt, net of current portion		4,596,409
Total liabilities		11,373,908
Net assets:		
Without donor restrictions		28,651,958
With donor restrictions		204,155
Total net assets		28,856,113
Total liabilities and net assets	$	40,230,021

See notes to financial statements

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

Jefferson Community Health & Life

Statement of Operations
For the Year Ended September 30, 2021

	2021
REVENUE WITHOUT DONOR RESTRICTIONS:	
Patient service revenue	$ 23,544,259
Other revenue	3,994,965
Net assets released from restrictions used for operations	33,275
Total revenue without donor restrictions	27,572,499
EXPENSES:	
Salaries and wages	12,216,636
Employee benefits	2,911,507
Supplies	4,406,980
Professional fees and purchased services	2,122,051
Repairs, maintenance and utilities	1,802,561
Other expenses	1,189,635
Depreciation and amortization	1,542,654
Interest	137,118
Total expenses	26,329,142
OPERATING INCOME	1,243,357
NONOPERATING GAINS (LOSSES):	
Investment income	292,805
Change in unrealized gains and losses on investments, net	391,991
Gifts, grants and bequests	199,244
Gain on forgiveness of PPP loan	2,308,912
Loss on early extinguishment of debt	(160,609)
Fundraising expenses	(29,486)
Nonoperating gains, net	3,002,857
EXCESS OF REVENUE OVER EXPENSES	4,246,214
GIFTS, GRANTS AND BEQUESTS FOR PURCHASE OF PROPERTY AND EQUIPMENT	69,228
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	$ 4,315,442

See notes to financial statements

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

Statement of Changes in Net Assets
For the Year Ended September 30, 2021

	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS:	
Operating income	$ 1,243,357
Nonoperating gains, net	3,002,857
Gifts, grants and bequests for purchase of property and equipment	69,228
Increase in net assets without donor restrictions	4,315,442
NET ASSETS WITH DONOR RESTRICTIONS	
Restricted gifts, grants and bequests	21,000
Net assets released from restrictions used for operations	(33,275)
Decrease in net assets with donor restrictions	(12,275)
CHANGE IN NET ASSETS	4,303,167
NET ASSETS, beginning of year	24,552,946
NET ASSETS, end of year	$ 28,856,113

See notes to financial statements

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

Statement of Cash Flows
For the Year Ended September 30, 2021

	2021
CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	$ 4,303,167
Adjustments to reconcile the change in net assets to net cash provided by operating activities -	
Gain on forgiveness of PPP loan	(2,308,912)
Loss on early extinguishment of debt	93,829
Depreciation and amortization	1,542,654
Amortization of debt issuance costs	5,490
Gain on investment in joint venture	(217,992)
Change in unrealized gains and losses on investments, net	(391,991)
Restricted gifts, grants and bequests	(90,228)
(Increase) decrease in current assets -	
Receivables -	
Patients	231,053
Related-party	(5,383)
Other	14,225
Patient customer contracts	(638,709)
Inventories	8,617
Prepaid expenses	203,193
Estimated third-party payor settlements - Medicare and Medicaid	969,000
Increase (decrease) in current liabilities -	
Accounts payable - trade	305,565
Accrued interest	(11,082)
Accrued salaries, vacation and benefits payable	(91,685)
Refundable advances	(3,042,776)
Estimated third-party payor settlements - Medicare and Medicaid	115,169
Net cash provided by operating activities	993,204
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments limited as to use	(364,243)
Proceeds from sale of investments limited as to use	905,000
Purchase of property and equipment, net	(7,426,878)
Net cash used in investing activities	(6,886,121)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Principal payments on capital lease obligations	(183,540)
Proceeds from issuance of long term debt	4,250,209
Principal payments on long-term debt	(4,476,172)
Payments for debt issuance costs	(111,876)
Restricted gifts, grants and bequests	90,228
Net cash used in financing activities	(431,151)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,324,068)
CASH AND CASH EQUIVALENTS, beginning of year	13,310,902
CASH AND CASH EQUIVALENTS, end of year	$ 6,986,834
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Paycheck Protection Program loan forgiveness	$ 2,308,912
Previous debt issue cost included in loss on early extinguishment of debt	93,829
Cash paid for interest	142,710

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, two rural health clinics, a 12,000 square-foot fitness center and a home health agency.

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.

On March 10, 2020, the World Health Organization declared the Coronavirus outbreak to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies of many countries. The healthcare industry has experienced volume declines due to the pandemic.

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 whose use is limited by donors included in investments limited as to use.

E. Patient Receivable

The Health Center reports patient receivables for services rendered at amounts reflecting consideration to which The Health Center expects to be entitled to from third-party payors, patients and others.

Payment for services is expected within thirty days of receipt of the billing. Accounts considered past due are sent to collection agencies when internal collection efforts have been unsuccessful. The Health Center does not charge interest on outstanding balances owed.

The Health Center's accounts receivable, as of July 1, 2020 was $2,502,948.

The Health Center also maintains a patient financial assistance policy as described in Note 1(O).

F. Patient Account Financing Program (with full recourse)

The Health Center has entered into a patient account financing agreement with one local bank. Under these agreements, the Health Center can sell patient accounts to the banks, with full recourse. As of September 30, 2021 the uncollected balances under these agreements was $52,599.

G. Patient Customer Contracts

Patient customer contracts represent the Health Center's right to consideration for goods or services transferred to a patient, before payment is due for those goods or services, in accordance with the terms of the contract between the Health Center, the patient and any third-party payors.

The Health Center's patient customer contracts, as of July 1, 2020 was $1,164,629.

H. 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.

I. 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 sheet. Investment income or loss (including realized and unrealized 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.

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.

J. 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. Equipment under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

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.

K. Refundable Advances

CARES Act Provider Relief Funds

The Health Center has received CARES Act Provider Relief payments which require certain terms and conditions. The Health Center classifies the receipts as refundable advances until the terms and conditions are met to recognize the receipts as revenue. At September 30, 2021 the Health Center recorded a refundable advance related to a portion of the receipts for which the terms and conditions had not yet been met. See Note 11 for a description of the funding recognized as revenue.

The Health Center has also received $200,000 under the American Rescue Plan 2021 to be used for the Rural Health Clinic COVID-19 Testing and Mitigation Program. These funds are to be used to support costs of the program through December 31, 2022. When terms and conditions are met, the Health Center will recognize amounts as revenue. As of September 30, 2021, no funds have been expended for their intended use.

Medicare Advance Payments

The Health Center recognizes a refundable advance for amounts received under the Accelerated and Advance Payment Program (AAPP) administered by the Centers for Medicare and Medicaid Services (CMS). The AAPP is available for providers to ensure cash flows for providers when there is a disruption in Medicare claims processing. The Health Center utilized the AAPP to ensure they have the necessary resources needed to combat potential delays in claims processing during the coronavirus pandemic. The total amount advanced to The Health Center was $4,150,936. These payments are an advance that The Health Center will repay CMS through the delivery of future goods or services to Medicare beneficiaries beginning one year after The Health Center's receipt of the AAPP funds. The recoupment period will continue through 29 months after The Health Center's receipt of the AAPP funds. Any remaining balance after the recoupment period will be charged a 4% interest rate. As of September 30, 2021 $1,132,039 of the AAPP has been recouped.

L. 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.

M. Performance Indicator

The statement 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 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).

N. Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the Health Center expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others. It includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, the Health Center bills the patients and third-party payors several days after the services are performed and or the patient is discharged. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Health Center. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Health Center believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. The organization measures the performance obligation from admission to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the Health Center does not believe it is required to provide additional goods or services to the patient.

Because all of its performance obligations relate to contracts with a duration of less than one year, the Health Center has elected to apply the optional exemption and is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The Health Center determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Health Center' policy, and or implicit price concessions provided to uninsured patients. The Health Center determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies and historical experience. The Health Center determines its estimate of implicit price concessions based on historical collection experience with various classes of patients.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Health Center provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Health Center estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts and implicit price concessions. Subsequent changes to the estimate of the transaction price are recorded as adjustments to patient service revenue in the period of change. For the year ended September 30, 2021 no significant adjustments to revenue were recognized due to changes in estimates of implicit price concessions for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense.

Consistent with the Health Center's mission, care is provided to patients regardless of their ability to pay. Therefore, the Health Center has provided implicit price concessions to uninsured patients and patients with uninsured balances (copays and deductibles). The implicit price concessions included in estimating transaction price represent the difference between amounts billed to patients and the amounts the Health Center expects to collect based on collection history with those patients.

The Health Center has elected the practical expedient and does not adjust the estimated amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Health Center' expectation that the period between the time service is provided to the patient and the time that the patient or third-party payor pays for that service will be one year or less. However, the Health Center does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. In these cases, the financing component is deemed to be insignificant to the contract.

The Health Center has applied the practical expedient and all incremental contract acquisition costs are expensed as they are incurred as the amortization period of the asset that the Health Center would otherwise have recognized is one year or less in duration.

O. 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.

P. 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 statement 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.

Q. 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.

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 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, 2021, 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. 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 statement 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.

U. Recent Accounting Pronouncements

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 statement of operations. On June 3, 2020, the FASB issued ASU 2020-05 which grants a one year effective date delay applying this guidance. The new standard is now effective for fiscal years beginning after December 15, 2021. Early application is permitted. The Health Center is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

V. Adoption of New Accounting Pronouncements

Effective October 1, 2020, the Health Center adopted the provisions of FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09). The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of ASU 2014-09 resulted in changes in the presentation and disclosure of patient service revenue, primarily related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, a significant portion of the provision for bad debts was related to uninsured patients as well as deductibles, co-pays and co-insurance amounts owed by patients with third-party payor coverage. Under ASU 2014-09, the estimated uncollectable amounts due from these patients are considered implicit price concessions, and are a direct reduction to patient service revenue.

W. Subsequent Events

The Health Center considered events occurring through January 20, 2022 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) Patient Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from the established rules. 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, certain outpatient services and certain rural health clinic services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate 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' Medicare cost reports have been audited by the Medicare Administrative Contractor through September 30, 2018.

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. Legislation has currently suspended this sequestration from May 1, 2020 to March 31, 2022.

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 are. These rates vary accordingly to a patient classification system.

Commercial Insurance. The basis for payment to the Health Center under these agreements includes discounts from established charges.

Patient service revenue by major payor class for the year ended September 30, 2021, is presented in the following tables:

		2021
Medicare	$	12,346,193
Medicaid		2,643,073
Commercial and other		8,554,993
Total patient service revenue	$	23,544,259

Patient service revenue, by service line of revenue recognition is as follows, as of September 30, 2021:

		2021
Hospital services	$	18,743,198
Clinic services		2,266,411
Long-term care services		2,534,650
Total patient service revenue	$	23,544,259

Revenue from patient's deductibles and coinsurance are included in the payor class and service line presented above based on the primary payor.

Revenue from the Medicare and Medicaid programs accounted for approximately 64% in 2021 of the Health Center' patient service revenue.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. Because of this, there is at lease a reasonable possibility that recorded estimates will change by a material amount in the near term. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge The Health Center' compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Health Center. In addition, the contracts The Health Center has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Health Center' historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews and investigations. Adjustments arising from a change in the transaction price increased approximately $145,000 in 2021 due to final settlements and years that are 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 year ended September 30, 2021 was approximately $131,000.

(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:

		2021
Financial Assets		
Cash and cash equivalents	$	6,986,834
Receivables -		
Patients		2,271,895
Related-party		64,871
Other		73,456
Patient customer contracts		1,803,338
Investments limited as to use		8,258,563
Total financial assets		19,458,957
Less investments limited as to use:		
By board designation for future capital improvements		8,054,408
By donor restriction		204,155
Total financial investments limited as to use		8,258,563
Financial assets available for general expenditure	$	11,200,394

The Board of Directors of the Health Center has designated $8,054,408 in 2021 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:

Fixed income securities - Investments in fixed income securities are comprised of federal agency obligations, corporate bonds and notes, and municipal bonds. 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 year ended September 30, 2021, 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, 2021:

	September 30, 2021			
	Total	Level 1	Level 2	Level 3
Fixed income securities -				
Corporate bonds	$ 441,705	--	411,705	--
US treasury securities	2,286,463	2,286,463	--	--
Federal agency securities	25,634	--	25,634	--
Municipal bonds	26,841	--	26,841	
Mutual funds -				
Money Market	21,540	21,540	--	--
International	487,975	487,975	--	--
Large cap	1,833,924	1,833,924	--	--
Small cap	373,029	373,029	--	--
Fixed income	2,546,103	2,546,103	--	--
	$ 8,043,214	7,549,034	464,180	--
Investments not subject to fair value measurement:				
Cash and cash equivalents	152,401			
Certificates of deposit	51,754			
Accrued interest	11,194			
Total	$ 8,258,563			

(6) Investments Limited as to Use

Investments limited as to use are stated at fair value. The composition of investments limited as to use, as of September 30, 2021 is set forth in the following table:

	2021
Investments limited as to use:	
Board designated -	
Fixed income securities	$ 2,780,643
Mutual funds	5,262,571
Accrued interest	11,194
Total board designated	8,054,408
By donor -	
Cash and cash equivalents	152,401
Certificates of deposit	51,754
Total by donor	204,155
Total investments limited as to use	$ 8,258,563

Investment return for the year ended September 30, 2021 is summarized as follows:

	2021
Interest and dividends	$ 292,805
Change in unrealized gains and losses on investments, net	391,991
Total investment return	$ 684,796

(7) Property and Equipment

Property and equipment as of September 30, 2021 is summarized as follows:

	2021
Land and improvements	$ 265,397
Buildings and fixed equipment	20,813,390
Major moveable equipment	6,760,422
Construction in progress	6,401,283
	34,240,492
Less accumulated depreciation	15,271,882
Property and equipment, net	$ 18,968,610

Depreciation expense of $1,542,654 in 2021 is included in the accompanying statement of operations.

Construction in progress at September 30, 2021 consists primarily of construction costs associated with a clinic construction and remodel project in Fairbury, Nebraska. Estimated total costs are $8 million which will be financed through new debt and existing operating reserves. The clinic is estimated to be completed in April 2022.

(8) Investment in Joint Venture

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.

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 year ended September 30, 2021:

	2021
Management and accounting services	$ 89,885
Dietary	436,455
Maintenance	7,442
Laundry	6,340
	$ 540,122

A gain on equity investment in joint ventures of $217,992 is included with other revenue in the statement of operations for the year ended September 30, 2021.

(9) Long-Term Debt and Capital Lease Obligations

Long-Term Debt

A summary of long-term debt at September 30, 2021 is as follows:

		2021
Cerner implementation costs, payable in quarterly installments of $61,180, beginning January 2020 through July 2026. (A)	$	1,284,781
Revenue and Refunding Bonds, Series 2020, issued by Hospital Authority No. 1 of Jefferson County, Nebraska, principal and interest payments are due through December 2041. (B)		4,025,209
		5,309,990
Less unamortized debt issuance costs		107,681
Total long-term debt, net	$	5,202,309

(A) Capital lease obligation, collateralized by lease of equipment with the original cost of $1,713,040 and net book value of $1,534,674, quarterly payments of $61,180, through July 2026, no associated financing fee.

(B) On December 18, 2020, $8,275,000 of Revenue and Refunding Bonds, Series 2020 were issued by Hospital Authority No. 1 of Jefferson County, Nebraska (Issuer), pursuant to the Indenture and Loan Agreement between the Issuer, Heartland Bank (Lender), and the Health Center (Borrower). $4,250,209 of the proceeds of the Series 2020 Bonds were used to refund Series 2012 Revenue Bonds. The remaining proceeds will be used for financing the construction of an addition to the existing Health Center facility. As of September 30, 2021, the Health Center has not drawn upon this subsequent advance. Initial monthly principal and interest payments from January 2021 until December 2023 of $25,000 with a fixed interest rate of 2.75%. Commencing January 2024, level quarterly installments of principal and interest are due until December 2041 using a fixed interest rate equal to the 15 Year Federal Home Loan Bank amortizing rate on January 2024 plus 110 basis, with a minimum of 2.75%.

The Series 2020 Bonds require the Health Center to comply with certain financial covenants including maintaining a debt service coverage ratio of at least 1.50:1:00, a leverage ratio no higher than 0.50:1:00, and maintain an unrestricted cash balance of at least $2,000,000, as long as the 2020 bonds are outstanding.

Debt issue costs are amortized on a straight-line basis over the period of their respective debt issue, which approximates the interest rate method. Amortization expense of $5,490 in 2021 is included with interest expense in the statement of operations.

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

2022	$	605,901
2023		544,720
2024		428,754
2025		393,637
2026		397,785
Thereafter		2,939,193
		5,309,990

The Health Center was granted a $2,308,912 loan under the Payroll Protection Program administered by a Small Business Administration (SBA) approved partner. The Health Center was eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Health Center initially recorded a note payable and subsequently recorded a gain on forgiveness when the loan obligation was legally released by the SBA in April 2021. The Health Center recognized $2,308,912 of loan forgiveness in non-operating gains in 2021.

(10) Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at September 30, 2021:

		2021
Subject to expenditure for specified purpose:		
Scholarships	$	1,144
Donor designated for specific Health Center departments		152,257
	$	153,401
Endowments,		
Subject to the Health Center's spending policy and appropriation	$	50,754

(11) Other Revenue, Net

Other revenue consisted of the following as of September 30, 2021:

		2021
CARES Act Provider Relief Funds	$	2,245,513
340B contract pharmacy revenue		773,403
Cedarwood contract services		451,280
Gain on equity investment in joint venture		217,992
Cafeteria and dietary		143,397
Cedarwood management and accounting services		89,978
Other		73,402
	$	3,994,965

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law that provides $175 billion in relief funds to hospitals and other healthcare providers on the front line of the coronavirus response. This funding is to be used to support healthcare-related expenses or lost revenue attributable to the coronavirus and to ensure uninsured patients can get testing and treatment for the coronavirus. A portion of the funds were distributed to eligible providers beginning April 10, 2020 and targeted distributions were made in following months. The funds represent a stimulus grant which requires certain terms and conditions. Total CARES Act Provider Relief Funds advanced to the Health Center through September 30, 2021 was $4,478,211. The Health Center has recognized the funds in other operating revenue based on healthcare related expenses and lost revenue through September 30, 2021, in satisfaction with terms and conditions agreed to with the Department of Health and Human Services (HHS). In September 2021, the Health Center was required to submit to HHS documentation on how the Provider Relief Funds, received prior to June 30, 2020, were used. HHS has continually made clarifications as to approved uses of the Provider Relief Funds. Management believes it has complied with the terms and conditions agreed to, albeit information and documentation is subject to audit up to three years after it is reported in the Provider Relief Fund portal by the Health Center.

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 year ended September 30, 2021, 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 $410,701 for 2021.

(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, 2021 was as follows:

	2021
Medicare	48%
Medicaid	11
Commercial and other	41
	100%

(15) Commitments and Contingencies

Litigation

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.

Commitments

During 2019, the Health Center entered into an agreement with Cerner to acquire and develop a comprehensive software solution for an electronic health record. The agreement term is for ten years and includes perpetual software licenses, Cerner resources, development and implementation, hardware and ongoing maintenance and service costs. The solution is hosted by Cerner and was placed into service in August 2020. As of September 30, 2021, the Health Center recognized $142,116 in service costs. Future commitments under the agreement are as follows:

September 30,		Maintenance and Service
2022	$	90,600
2023		72,800
2024		72,800
2025		72,800
2026		72,800
Thereafter		217,440

(16) Functional Expenses

The table presented below illustrates the Health Center’s expenses by both their nature and their function for the year ended September 30, 2021:

		2021		
		Program Services	**Support Services**	
		Healthcare Services	Management and General	Total
Salaries and wages	$	11,410,443	806,193	12,216,636
Employee benefits		2,718,801	192,706	2,911,507
Supplies		4,335,169	71,811	4,406,980
Professional fees and purchased services		1,770,788	351,263	2,122,051
Repairs, maintenance and utilities		1,697,419	105,142	1,802,561
Other expenses		719,564	470,071	1,189,635
Depreciation and amortization		1,433,794	108,860	1,542,654
Interest		127,442	9,676	137,118
	$	24,213,420	2,115,722	26,329,142

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.

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

Exhibit 1

Financial and Statistical Highlights
For the Year Ended September 30, 2021

	2021
Patient days:	
Adult and pediatric -	
Medicare	297
Other	80
	377
Swing bed -	
Skilled	680
Intermediate	47
Total	1,104
Long-term care unit days	11,150
Observation equivalent days	704
Home health visits	1,967
Surgery cases	457
Emergency room visits	2,588
Clinic visits	13,988
Fitness center visits	28,736
Number of employees - full-time equivalents	192.01