The Community Hospital Association and Affiliate
McCook, Nebraska

Consolidated Financial Statements
and Supplementary Information
June 30, 2019 and 2018

Together with Independent Auditor's Report

The Community Hospital Association and Affiliate

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Independent Auditor's Report

To the Board of Directors of
The Community Hospital Association and Affiliate
McCook, Nebraska:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Community Hospital Association and Affiliate (together the Organization), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2019 and 2018 and the changes in 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.

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Emphasis of Matter

As discussed in Note 18 to the financial statements, in 2019, the Organization 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.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary information (Exhibits 1 through 4) are presented for purposes of additional analysis and are not a required part of the basic consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

SEIM JOHNSON, LLP

Omaha, Nebraska,
September 6, 2019.

The Community Hospital Association and Affiliate

Consolidated Balance Sheets
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,217,768	5,865,132
Receivables -		
Patients, net of allowance for doubtful accounts of $1,610,000 in 2019 and $1,577,000 in 2018	7,407,964	6,270,131
Other	466,906	157,123
Inventories	1,746,787	1,677,255
Prepaid expenses	1,230,477	1,086,046
Estimated third-party payor settlements	--	370,598
Total current assets	18,069,902	15,426,285
Assets limited as to use	6,638,858	5,801,029
Investments	9,314,318	10,709,750
Property and equipment, net	33,835,828	32,366,941
Other assets	183,275	198,821
Total assets	$ 68,042,181	64,502,826
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	$ 296,647	2,444,131
Accounts payable -		
Trade	707,044	858,799
Construction and equipment	1,551,248	--
Accrued salaries, vacation and benefits payable	1,929,687	1,528,008
Other accrued expenses	745,240	513,285
Estimated third-party payor settlements	906,478	--
Total current liabilities	6,136,344	5,344,223
Long-term debt, net of current portion	14,209,999	14,485,504
Deferred compensation	257,527	219,572
Total liabilities	20,603,870	20,049,299
Net assets:		
Without donor restrictions	45,121,470	42,483,377
With donor restrictions	2,316,841	1,970,150
Total net assets	47,438,311	44,453,527
Total liabilities and net assets	$ 68,042,181	64,502,826

See notes to consolidated financial statements

The Community Hospital Association and Affiliate

Consolidated Statements of Operations
For the Years Ended June 30, 2019 and 2018

	2019	2018
REVENUE WITHOUT DONOR RESTRICTIONS:		
Net patient service revenue	$ 48,303,201	45,188,840
Provision for bad debts	(1,224,138)	(1,369,263)
Net patient service revenue, less provision for bad debts	47,079,063	43,819,577
Other operating revenue	1,741,658	1,732,675
Total revenue without donor restrictions	48,820,721	45,552,252
EXPENSES:		
Salaries and wages	17,250,548	16,282,194
Employee health and welfare	5,817,693	6,390,789
Supplies and other	19,072,852	17,234,920
Depreciation	4,269,710	4,271,145
Interest	621,903	736,422
Insurance	193,332	202,509
Grants to others	47,248	60,765
Total expenses	47,273,286	45,178,744
OPERATING INCOME	1,547,435	373,508
NONOPERATING GAINS, NET:		
Investment income, net	704,045	603,716
Unrestricted gifts, grants and bequests	157,489	210,616
Nonoperating gains, net	861,534	814,332
EXCESS OF REVENUE OVER EXPENSES	2,408,969	1,187,840
NET CHANGE IN UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	229,124	117,004
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	$ 2,638,093	1,304,844

See notes to consolidated financial statements

The Community Hospital Association and Affiliate

Consolidated Statements of Changes in Net Assets
For the Years Ended June 30, 2019 and 2018

		2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS:			
Operating income	$	1,547,435	373,508
Nonoperating gains, net		861,534	814,332
Net change in unrealized gains and losses on other than trading securities		229,124	117,004
Increase in net assets without donor restrictions		2,638,093	1,304,844
NET ASSETS WITH DONOR RESTRICTIONS:			
Contributions		401,078	156,373
Net assets released from restrictions		(54,387)	(137,249)
Increase in net assets with donor restrictions		346,691	19,124
INCREASE IN NET ASSETS		2,984,784	1,323,968
NET ASSETS, beginning of year, as restated		44,453,527	43,129,559
NET ASSETS, end of year	$	47,438,311	44,453,527

See notes to consolidated financial statements

The Community Hospital Association and Affiliate

Consolidated Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018

		2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from patients and third-party payors	$	47,218,306	43,447,131
Cash received from others		1,487,729	1,964,332
Cash paid for employee salaries and related benefits		(22,434,607)	(22,759,836)
Cash paid to suppliers		(19,631,902)	(17,698,674)
Interest paid		(600,761)	(711,053)
Investment income received		704,045	603,716
Net cash provided by operating activities		6,742,810	4,845,616
CASH FLOWS FROM INVESTING ACTIVITIES:			
Withdrawls from investments		1,624,556	3,611,503
Deposits to assets limited as to use, net		(799,874)	(236,087)
Deductions from other assets		15,546	2,116
Purchase of property and equipment, net		(4,187,349)	(2,784,495)
Net cash provided by (used in) investing activities		(3,347,121)	593,037
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on long-term debt		(2,444,131)	(2,773,103)
Proceeds from restricted contributions		401,078	156,373
Net cash used in financing activities		(2,043,053)	(2,616,730)
INCREASE IN CASH AND CASH EQUIVALENTS		1,352,636	2,821,923
CASH AND CASH EQUIVALENTS, beginning of year		5,865,132	3,043,209
CASH AND CASH EQUIVALENTS, end of year	$	7,217,768	5,865,132

See notes to consolidated financial statements

The Community Hospital Association and Affiliate

Consolidated Statements of Cash Flows (Continued)
For the Years Ended June 30, 2019 and 2018

		2019	2018
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Increase in net assets	$	2,984,784	1,323,968
Adjustments to reconcile the increase in net assets to net cash provided by operating activities -			
Restricted contributions		(401,078)	(156,373)
Depreciation		4,269,710	4,271,145
Amortization of debt issuance costs		21,142	25,369
Net change in unrealized gains and losses on other than trading securities		(229,124)	(117,004)
Gain on disposal of property and equipment		--	(8,167)
(Increase) decrease in current assets -			
Receivables -			
Patient		(1,137,833)	(161,444)
Other		(309,783)	227,222
Inventories		(69,532)	(51,395)
Prepaid expenses		(144,431)	(30,917)
Estimated third-party payor settlements		370,598	(211,002)
Increase (decrease) in current liabilities -			
Accounts payable		(151,755)	(178,933)
Accrued salaries, vacation, and benefits payable		401,679	(70,910)
Other accrued expenses		231,955	(15,943)
Estimated third-party payor settlements		906,478	--
Net cash provided by operating activities	$	6,742,810	4,845,616

See notes to consolidated financial statements

(1) Organization and Summary of Significant Accounting Policies

The following is a summary of the organization and significant accounting policies of The Community Hospital Association and Affiliate (Organization). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. Organization

The Community Hospital Association (a Nebraska corporation, not-for-profit) operates a 25-bed Critical Access Hospital (the Hospital). The Hospital also operates rural health clinics, home health, hospice and an orthopedic clinic. In addition, the Hospital is the sole corporate member of Community Hospital Health Foundation (Foundation). The accompanying consolidated financial statements include the accounts of all two organizations. All intercompany transactions have been eliminated in the consolidation.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for Health Services. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential health care services through critical access hospitals and rural health networks.

During fiscal year 2006, the Hospital’s Board of Directors approved the Hospital’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 Hospital’s application to become certified as a CAH was approved by Nebraska Health and Human Services and the certification was effective December 1, 2005.

The Foundation was established primarily for the benefit of the Hospital. All funds raised in excess of operating expenses will be disbursed to or be held for the benefit of the Hospital as required to comply with donor imposed restrictions.

B. Industry Environment

The health care 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 health care 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 health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital 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 Hospital’s consolidated financial statements, compliance with 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 consolidated financial statements in conformity with accounting principles generally 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 consolidated 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 for purposes of the consolidated statements of cash flows include certain investments in highly liquid debt instruments with original maturities of three months or less, excluding investments and assets limited as to use.

E. Patient Receivables, Net

The Hospital 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 Hospital analyzes its historical collections 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 Hospital 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 Hospital records a significant provision for bad debts in the period of service on the basis of its historical 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.

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. Any amounts deemed uncollectible are written off on a monthly basis. The Hospital does not charge interest on outstanding balances owed.

The Hospital also maintains a charity care policy as described in Note 1(N).

F. Patient Account Financing Program (with full recourse)

The Hospital has entered into a patient account financing program with a bank. Under this agreement, the Hospital can sell patient accounts receivable contracts with recourse to the bank. As of June 30, 2019 and 2018, the uncollected balance was $31,218 and $29,555, respectively. The Hospital believes it is not exposed to any significant credit risk on these contracts.

G. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value.

H. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying consolidated balance sheets. The Hospital’s securities have been classified as other than trading securities in the accompanying consolidated financial statements. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the revenue or expense is restricted. Unrealized gains and losses on investments that are considered temporary are excluded from excess of revenue over expenses and are included as changes in net assets without donor restrictions unless the investments are trading securities. Periodically, the Hospital and Foundation review their investments to determine whether any unrealized losses are other-than-temporary. During 2019 and 2018, there were no investment declines that were determined to be other-than-temporary.

I. Assets Limited as to Use

Under loan guarantee – These deposits are required by the Hospital's Farmers Home Administration, United States Department of Agriculture loan agreements. Proceeds from the sale of capital assets are restricted for loan repayments or future capital additions.

By board of directors – Periodically, the Board of Directors (Board) has set aside assets for future capital improvements and employee health insurance claims over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Under deferred compensation plan – These assets have been purchased to assist the Hospital in meeting its obligations under the 457(b) deferred compensation agreement.

By donor – These funds have been restricted by donors for specific capital and operating items and endowment funds. As of June 30, 2019 and 2018, $2,316,841 and $1,970,150, respectively was limited as to use by donors. See Note 9 for additional information about endowments and Note 10 for additional information about net assets with donor restrictions.

J. Property and Equipment, Net

Property and equipment acquisitions are recorded at cost. All acquisitions over $5,000 are capitalized. Depreciation is provided over the estimated life of each class of depreciable asset and is computed using the straight-line method based upon useful lives set forth using the general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets.

Equipment under capital lease obligations are depreciated on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. 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 donated or acquired long-lived assets are placed into service.

K. 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 in performing the primary objectives of the Organization. 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 restrictons 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.

L. Endowment Funds

The Organization follows the provisions of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Subtopic 958-205, for all endowment funds, including any changes required to net asset classification of donor-restricted endowment funds and the incremental disclosure requirements for all endowment funds (including both donor-restricted and board-designated endowment funds).

M. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

N. Charity Care

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

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

O. Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as support with donor restrictions if they are received with donor restrictions 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 consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as contributions without donor restrictions in the accompanying consolidated financial statements.

Resources restricted by donors or grantors for specific operating purposes are reported in other operating revenue to the extent used within the period.

P. 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 consolidated statements of operations. Note 17 presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Q. Tax Exempt Status and Income Taxes

The Hospital and Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are 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 tax-exempt status. In general, such standards require the Hospital and Foundation to meet a community benefit standard and comply with various laws and regulations.

The Hospital and Foundation account for uncertainties in accounting for income tax assets and liabilities using guidance included in FASB ASC 740, *Income Taxes*. The Hospital and Foundation recognize the effect of income tax positions only if those positions are more likely than not of being sustained. At June 30, 2019 and 2018, the Hospital and Foundation had no uncertain tax positions accrued.

R. Group Health Insurance

The Hospital is self-insured under its employee group health program, up to certain limits. Included in the accompanying consolidated 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.

S. Performance Indicator

The consolidated statements of operations include the excess of revenue over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from the performance indicator, consistent with industry practice, include the change in unrealized gains and losses on other than trading securities and reclassification of net assets.

T. Risk Management

The Hospital 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.

U. Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Organization is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

In July 2019, the FASB proposed to delay the implementation date by one year for those entities with an original implementation date for fiscal years beginning after December 15, 2019. The delay is currently in proposed format and remains subject to change as it has not been codified into the accounting standards. We recommend management continue to monitor the proposed delay in the implementation date of ASU 2016-02 and take appropriate action to properly apply the provisions of the standard once it becomes effective.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. generally accepted accounting principles 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 Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, with further clarifications made in February 2018 with the issuance of ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in excess of revenue over expenses.

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-18, Statement of Cash Flows (Topic 230). The update addresses diversity in practice as to how restricted cash is presented on the statement of cash flows. The update indicates that amounts generally described as restricted cash should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update will be effective for fiscal years beginning after December 15, 2018, with early application permitted.

V. *Change in Accounting Principle*

In 2019, the Organization adopted the 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 18 for additional information regarding the impact of these changes to the Organization's consolidated financial statements.

W. *Reclassifications*

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

X. *Subsequent Events*

The Organization considered events occurring through September 6, 2019 for recognition or disclosure in the consolidated financial statements as subsequent events. That date is the date the consolidated financial statements were available to be issued.

(2) Net Patient Service Revenue

	June 30, 2019			
	Commercial Payors	Government Payors	Self Pay	Total
Gross patient service revenue	$ 24,080,253	46,241,104	3,189,998	73,511,355
Less: Contractual allowances	(2,976,554)	(20,034,953)	--	(23,011,507)
Less: Charity care write-offs	(308,158)	(164,478)	(1,334,047)	(1,806,683)
Less: Community outreach and discounts	(36,324)	(70,533)	(283,107)	(389,964)
Net patient service revenue	20,759,217	25,971,140	1,572,844	48,303,201
Provision for bad debts	(386,059)	(293,206)	(544,873)	(1,224,138)
Net patient service revenue, less provision for bad debts	$ 20,373,158	25,677,934	1,027,971	47,079,063

	June 30, 2018			
	Commercial Payors	Government Payors	Self Pay	Total
Gross patient service revenue	$ 21,193,049	41,790,658	2,690,174	65,673,881
Less: Contractual allowances	(2,252,117)	(16,086,020)	--	(18,338,137)
Less: Charity care write-offs	(261,068)	(141,570)	(1,333,378)	(1,736,016)
Less: Community outreach and discounts	(32,014)	(68,310)	(310,564)	(410,888)
Net patient service revenue	18,647,850	25,494,758	1,046,232	45,188,840
Provision for bad debts	(368,316)	(359,938)	(641,009)	(1,369,263)
Net patient service revenue, less provision for bad debts	$ 18,279,534	25,134,820	405,223	43,819,577

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - All 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, outpatient services and rural health clinic services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

Homecare services are paid at prospectively determined rates per episode of care. Certain professional services provided to Medicare beneficiaries are paid on fee schedule amounts.

The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 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 Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

Commercial Insurance - The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined rates.

The following illustrates the Hospital's gross patient service revenue at its established rates and revenue deductions by major third-party payors as of June 30, 2019 and 2018:

	2019	2018
Gross patient service revenue		
Inpatient services	$ 15,871,524	15,518,000
Outpatient services	55,749,699	48,731,681
Home Health	1,300,234	853,950
Curtis Clinic	219,047	188,030
Trenton Clinic	370,851	382,220
	73,511,355	65,673,881
Deductions from service revenue		
Medicare	17,814,082	14,960,567
Medicaid	2,220,871	1,125,453
Other payors	2,976,554	2,252,110
Charity care	2,196,647	2,146,911
	25,208,154	20,485,041
Net patient service revenue	$ 48,303,201	45,188,840

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Net patient service revenue increased $319,000 and $320,000 in 2019 and 2018, respectively, due to the removal of allowances previously estimated that are no longer necessary as a result of information obtained from final settlements and years that are no longer subject to audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 50% and 5%, respectively, in 2019, and 52% and 5%, respectively, in 2018, of the Hospital's net patient revenue. 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.

(3) Charity Care

In accordance with its mission objectives, the Hospital provides financial assistance to patients who lack financial resources to pay for the services they receive, and the Hospital recognizes the special concerns of individuals and households with limited financial resources or who are otherwise vulnerable within the community the Hospital services. Financial assistance is provided to patients with demonstrated inability to pay as contrasted with bad debt that results from an unwillingness to pay; thus, charity care does not include bad debt.

Included in the provision for contractual allowances is the value at standard charges of these services to patients who are unable to pay, which was $1,806,683 and $1,736,016 for the years ended June 30, 2019 and 2018, respectively. That amount is eliminated from net patient service revenue when it is determined they qualify under the Hospital's charity care policy. The estimated cost incurred by the Hospital to provide these services to patients who are unable to pay was approximately $1,154,000 and $1,185,000 for the years ended June 30, 2019 and 2018, respectively. The estimated cost of these charity care services was determined using a ratio of costs to standard charges and applying that ratio to the standard charges associated with providing care to charity patients for the period. Standard charges associated with providing care to charity patients includes only the related charges for those patients who are financially unable to pay and qualify under the Hospital's charity care policy and that do not otherwise qualify for reimbursement from a governmental program.

In addition, the Hospital provides services that are related to the Hospital's mission providing health care for all individuals in the community regardless of their ability to pay, but do not fall within the Charity Care policy. These services include community wellness fairs, Medicare Hardship determinations, discounts for individuals who do not meet the charity care guidelines for medical indigence, the Every Woman Matters program, and many others. The Hospital does receive various funds to help defray portions of the cost of care of these programs. The value at standard charges of these services which were not paid was $389,964 and $410,888 for the years ended June 30, 2019 and 2018, respectively, and the amount of those charges are eliminated from net patient service revenue.

(4) Liquidity and Availability

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

		2019	2018
Financial Assets:			
Cash and cash equivalents	$	7,217,768	5,865,132
Receivables -			
Patients		7,407,964	6,270,131
Other		466,906	157,122
Estimated third-party payor settlements		--	370,598
Assets limited as to use		6,638,858	5,801,029
Investments		9,314,318	10,709,750
Total financial assets		31,045,814	29,173,762
Less financial assets limited as to use:			
Assets limited as to use -			
Under loan guarantee for debt service		941,400	900,133
By board for employee health insurance claims		502,244	308,030
By board for capital improvements		2,620,846	2,403,144
By board designated endowment		1,550,761	1,330,464
Under deferred compensation plan		257,527	219,572
By donor		2,316,841	1,970,150
Total financial assets limited as to use		8,189,619	7,131,493
Financial assets available for general expenditure	$	22,856,195	22,042,269

For 2019 and 2018, the Board of Directors of the Hospital has designated $2,620,846 and $2,403,144 respectively, to be used for future capital improvements, designated $502,244 and $308,030, respectively, to be used for employee health insurance claims and designated $1,550,761 and $1,330,464, respectively, for endowment. 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.

As part of the Hospital's liquidity management plan, the Organization invests cash in excess of daily requirements in money market funds.

(5) Fair Value Measurements

Fair Value Measurements

FASB ASC Topic 820 Subtopic 10 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 prices in active markets for identical assets or liabilities that the Hospital has the ability to access at the measurement date.

Level 2 Inputs are 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 for the asset or liability. Unobservable inputs reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) 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:

Cash and cash equivalents – Cash and cash equivalents are classified as Level 1 as these funds are valued using quoted market prices.

Mutual funds – Mutual funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Corporate bonds and notes – Corporate bonds and notes 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

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

The following tables present the balances of investment securities measured at fair value on a recurring basis at June 30, 2019 and 2018:

Hospital

	June 30, 2019			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets limited as to use:				
By board for employee health insurance claims -				
Cash and cash equivalents	$ 502,244	502,244	--	--
By board for capital improvements -				
Cash and cash equivalents	20,978	20,978	--	--
Mutual funds	795,531	795,531	--	--
Corporate bonds and notes	1,804,337	--	1,804,337	--
Under deferred compensation plan -				
Mutual funds	257,527	257,527	--	--
	3,380,617	1,576,280	1,804,337	--
Assets limited as to use, not subject to fair value measurement,				
Under loan guarantee for debt service -				
Certificates of deposit	941,400			
Investments not subject to fair value measurement,				
Certificates of deposit	7,921,364			
	$ 12,243,381			

	June 30, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets limited as to use:				
By board for employee health insurance claims -				
Cash and cash equivalents	$ 308,030	308,030	--	--
By board for capital improvements -				
Cash and cash equivalents	44,201	44,201	--	--
Mutual funds	758,020	758,020	--	--
Corporate bonds and notes	1,600,923	--	1,600,923	--
Under deferred compensation plan -				
Mutual funds	219,572	219,572	--	--
	2,930,746	1,329,823	1,600,923	--
Assets limited as to use, not subject to fair value measurement,				
Under loan guarantee for debt service -				
Certificates of deposit	900,133			
Investments not subject to fair value measurement,				
Certificates of deposit	9,165,970			
	$ 12,996,849			

Foundation

	June 30, 2019			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments, including assets limited as to use by donor:				
Cash and cash equivalents	$ 51,029	51,029	--	--
Mutual funds	2,245,175	2,245,175	--	--
Corporate bonds and notes	1,102,611	--	1,102,611	--
	3,398,815	2,296,204	1,102,611	--
Investments not subject to fair value measurement,				
Certificates of deposit	310,980			
	$ 3,709,795			

	June 30, 2018			
	Total	**Level 1**	**Level 2**	**Level 3**
Investments, including assets limited as to use by donor:				
Cash and cash equivalents	$ 40,914	40,914	--	--
Mutual funds	2,089,048	2,089,048	--	--
Corporate bonds and notes	1,078,275	--	1,078,275	--
	3,208,237	2,129,962	1,078,275	--
Investments not subject to fair value measurement,				
Certificates of deposit	305,693			
	$ 3,513,930			

(6) Investments

The Hospital's investment return for the year ended June 30, 2019 and 2018 is summarized as follows:

		2019	2018
Interest income	$	497,346	287,464
Gain (loss) on joint ventures		48,709	215,463
457 Plan investment income		10,515	16,833
Total Hospital investment return	$	556,570	519,760

The Foundation's investment return for the year ended June 30, 2019 and 2018 is summarized as follows:

		2019	2018
Interest and dividend income	$	93,585	62,824
Realized (gain) loss on sales of investments, net		53,890	21,132
Changes in net unrealized gains and losses on investments, net		229,124	117,004
Total Foundation investment return	$	376,599	200,960
Included in nonoperating gains, net	$	147,475	83,956
Reported separately as a change in net assets		229,124	117,004
Total Foundation investment return	$	376,599	200,960

In accordance with the Farmers Home Administration, United States Department of Agriculture loan resolution security agreements, the Hospital must make monthly deposits into reserve accounts up to a defined amount for each note payable. The funding deposits and requirements for June 30, 2019 and 2018 were as follows:

		2019	2018
Certificates of deposit and accrued interest	$	941,400	900,133
Funding requirements		903,670	798,082
Deposits in excess of requirements	$	37,730	102,051

(7) Property and Equipment, Net

The following is a summary of the cost of property and equipment at June 30, 2019 and 2018:

		2019	2018
Land and land improvements	$	2,985,163	2,016,196
Buildings		26,856,116	26,129,550
Equipment		45,901,738	44,886,959
Construction work-in-progress		4,585,965	1,654,176
		80,328,982	74,686,881
Less accumulated depreciation		(46,493,154)	(42,319,940)
Property and equipment, net	$	33,835,828	32,366,941

Depreciation expense of $4,269,710 and $4,271,145 in 2019 and 2018, respectively, is included in the accompanying consolidated statements of operations.

The composition of construction work-in-process as of June 30, 2019 was largely made up of one major project. The 2020 addition and renovation project includes both an addition and remodel of certain hospital areas currently has approximately $3,875,000 of accumulated costs as of June 30, 2019. The total cost of the project is estimated to be $19,000,000 and will be funded through a $15,000,000 loan through Thayer County Bank backed by United States Department of Agriculture, a $1,000,000 loan directly from the United States Department of Agriculture, and $3,000,000 of Hospital funds.

(8) Long-Term Debt

Long-term debt as of June 30, 2019 and 2018 consists of the following:

	2019	2018
$4,200,000, 4.25% note payable to the United States Department of Agriculture, payable in monthly installments of $18,606, beginning in October 2013, including principal and interest through September 2049. The note is secured by property of the Hospital.	$ 3,652,535	3,719,026
$15,000,000, 3.95% note payable to Thayer County Bank, payable in monthly installments of $219,642, including principal and interest through May 2019. The note is guaranteed by the United States Department of Agriculture and is secured by property of the Hospital.	--	2,156,987
$9,900,000, 3.75% note payable to the United States Department of Agriculture, payable in monthly installments of $40,788, beginning in December, 2014, including principal and interest through November 2052. The note is secured by property of the Hospital.	9,018,600	9,166,816
$2,174,067, 3.375% note payable to the United States Department of Agriculture, payable in monthly installments of $11,310 beginning July 2014, including principal and interest through August 2037. The note is secured by property of the Hospital.	1,835,511	1,907,948
Less unamortized debt issuance costs	--	(21,142)
Total long-term debt	$ 14,506,646	16,929,635

The Hospital has established certain funds in accordance with the terms of the Farmers Home Administration, United States Department of Agriculture loan resolution security agreements.

Unamortized deferred financing costs relate to the Hospital's Thayer County Bank loan guaranteed by the United States Department of Agriculture, which is being amortized over the life of the note on a straight-line basis, which approximates the interest rate method. Amortization expense of $21,142 and $25,369 in 2019 and 2018, respectively, is included in interest expense in the consolidated statements of operations.

The Hospital has a line of credit through McCook National Bank. For the years ended June, 30, 2019 and 2018, the Hospital has $-0- drawn on the line of credit, respectively.

The aggregate maturities of long-term debt during each of the next five years are as follows:

Year Ending June 30, 2019		
2020	$	296,647
2021		309,549
2022		321,434
2023		333,778
2024		345,219
Thereafter		12,900,019
	$	14,506,646

(9) Endowment

The Foundation has adopted the provisions of FASB ASC Topic 958 Subtopic 205 Section 05, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*. The ASC provides guidance on classifying net assets associated with donor restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA). A key component of the ASC is a requirement for expanded disclosures about all endowment funds. The State of Nebraska adopted a version of UPMIFA effective September 1, 2007.

The Foundation's endowment consists of approximately six individual funds established for a variety of purposes. Its endowment includes donor restricted endowment funds and also certain net assets without donor restrictions that have been designated for endowment by the Board of Directors. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of Relevant Law – The Foundation's governing board has interpreted the UPMIFA enacted in the State of Nebraska as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of the gifts donated to the endowment, (b) the original value of the subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence described by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

1. The duration and preservation of the fund.
2. The purpose of the Foundation and the donor restricted endowment fund.
3. General economic conditions
4. The possible effect of inflation and deflation.
5. The expected total return from income and the appreciation of investments.
6. Other resources of the Foundation.
7. The investment policies of the Foundation.

Endowment composition consists of the following as of June 30, 2019 and 2018:

		Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$	1,550,761	--	1,550,761
Donor-restricted endowment funds		--	1,580,153	1,580,153
Total endowment funds	$	1,550,761	1,580,153	3,130,914

		Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$	1,330,464	--	1,330,464
Donor-restricted endowment funds		--	1,575,363	1,575,363
Total endowment funds	$	1,330,464	1,575,363	2,905,827

Changes in endowment net assets for the years ended June 30, 2019 and 2018 are as follows:

2019		**Without Donor Restrictions**	**With Donor Restrictions**	**Total**
Endowment net assets, beginning of year	$	1,330,464	1,575,363	2,905,827
Investment return:				
Investment income		84,510	--	84,510
Net realized gain		41,389	--	41,389
Net unrealized gain		180,794	--	180,794
Total investment return		306,693	--	306,693
Contributions		--	4,790	4,790
Transfers		(86,396)	--	(86,396)
		(86,396)	4,790	(81,606)
Endowment net assets, end of year	$	1,550,761	1,580,153	3,130,914

2018		Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$	1,149,634	1,568,105	2,717,739
Investment return:				
Investment income		59,942	--	59,942
Net realized gain		5,467	--	5,467
Net unrealized gain		105,556	--	105,556
Total investment return		170,965	--	170,965
Contributions		--	7,258	7,258
Transfers		9,865	--	9,865
		9,865	7,258	17,123
Endowment net assets, end of year	$	1,330,464	1,575,363	2,905,827

Return Objectives and Risk Parameters

The Foundation has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while complying with all donor-imposed restrictions. Under this policy, as approved by the Board, the endowment assets are invested in a manner that maximizes total returns over long periods of time primarily through capital appreciation. Endowment assets are invested in a combination of the following: Equities (50-80%), Fixed Income (15-50%), and Short-Term Investments (5-20%).

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved primarily through the purchase of securities of high quality.

Appropriation Policy and How the Investment Objectives Relate to Appropriation Policy

The Foundation preserves the whole dollar value of the original gift as of the gift date of donor-restricted endowments, absent explicit donor stipulations to the contrary. Interest, dividend and net appreciation of the donor-restricted endowment funds are deemed appropriated for expenditure when earned.

(10) Net Assets With Donor Restrictions

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

		2019	2018
Subject to expenditure for specified purpose:			
Cardio-pulmonary campaign	$	321,557	--
Unspecified donor funds		260,275	253,214
Cancer care		45,927	46,074
Scholarship		34,160	32,453
Trenton medical center		28,942	28,682
Hospice		13,390	--
Curtis medical center		6,400	6,400
Pediatric room		3,188	3,188
Emergency funds		5,852	2,618
Purchase of property and equipment		228	36
Premium assistance		--	16
Other		16,769	22,106
		736,688	394,787
Endowments:			
Subject to the Foundation's endowment spending policy and appropriation:			
Hospice		5,420	5,420
Edwards scholarship		165,000	165,000
Boehm scholarship		50,000	50,000
Other		1,359,733	1,354,943
Total endowments		1,580,153	1,575,363
Total net assets with donor restrictions	$	2,316,841	1,970,150

(11) Other Operating Revenue

Other revenue for the years ended June 30, 2019 and 2018 is as follows:

		2019	2018
340b drug program	$	447,031	437,037
Rental and housekeeping revenue		323,352	336,235
Cafeteria revenue		207,031	185,521
Out-source services		195,516	222,214
Grant revenue		60,272	9,000
Net assets released from restrictions		54,387	137,249
Gain (loss) on disposal of property and equipment		--	8,167
Medical records transcript fees		10,515	7,340
Miscellaneous		443,554	389,912
	$	1,741,658	1,732,675

The following schedule shows the future recognition of deferred Medicare reimbursement, these amounts are included in estimated third party payor settlements on the consolidated balance sheet:

Amounts Recognized in Fiscal Year	Deferred Revenue Recognition
2020	$ 47,502

(12) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) which provides $500,000 of coverage for injuries per occurrence and $3,000,000 aggregate coverage. In addition, the Hospital carries a general liability policy which also provides $1,000,000 per occurrence and $3,000,000 aggregate coverage. The Hospital 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 statute limits covered claims above $2,250,000 and, in connection therewith, the Hospital carries an umbrella policy which also provides an additional $3,000,000 of professional liability coverage per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force.

The Hospital could have exposure on possible incidents that have occurred for which claims will be made in the future, should professional liability insurance not be maintained, 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 health care 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 Hospital does evaluate all incidents and claims along with prior claim experience to determine if a liability is to be recognized. For the years ending June 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 consolidated financial statements.

(13) Rental Income

The Hospital is the lessor of certain space under various noncancelable operating leases. Rental income is recorded monthly, as earned, in other revenue.

The following is a schedule by year of future minimum receipts under operating leases as of June 30, 2019, that have initial or remaining lease terms in excess of one year:

Year	Amount
2020	$ 214,588
2021	214,588
2022	212,788
2023	125,106
2024	2,350
	$ 769,420

(14) Pension Plan

The Hospital has a noncontributory, defined contribution pension plan established under section 401(a) of the internal revenue code for substantially all full-time and eligible part-time employees. After a one year eligibility period, the Hospital contributes 7% of each employee's salary, up to statutory limits, into individual, self-directed accounts. Each employee is fully vested after three years of qualified employment. Employees of the Foundation are also covered under this plan. Contributions totaled $1,085,449 and $983,149 for the years ended June 30, 2019 and 2018 respectively.

In addition, the Hospital has a contributory, defined contribution tax deferred annuity plan established under section 403(b) of the Internal Revenue Code available to all employees. Contributions are voluntary and are allowed up to the statutory limits. All contributions are accounted for in individual, self-directed accounts which fully vest immediately.

Because of the types of plans, there are no actuarial assumptions used in determining costs nor can there be any actuarial gain or loss. Any gain or loss in pension fund investments is reflected in the participating employee's benefits. The value of the vested earned benefits can never exceed the assets of the fund since the benefits are determined by the value accumulated for each employee.

(15) 457(b) Deferred Compensation Plan

The Hospital also offers additional deferred compensation plans for its executive officers in accordance with Internal Revenue Code 457(b). The plan permits eligible employees to defer a portion of their salaries until future years. Employees may defer up to the maximum amount allowed by Section 457(b) of the Internal Revenue Code into a separate investment account in which the executive has the right to direct the investment of the funds in accordance with investment guidelines established by the Hospital. The deferred compensation is not available to the employees until retirement, separation from employment, death, unforeseeable emergency or attaining age 65. The employer is the beneficial owner of all assets the employee places in the plan.

The deferred compensation assets related to this plan in the amount of $257,527 and $219,572 as of June 30, 2019 and 2018, respectively, are included within the accompanying consolidated balance sheets as assets limited as to use. A liability of $257,527 and $219,572 as of June 30, 2019 and 2018, respectively, based on the fair value of the investments, has also been included within the accompanying consolidated balance sheets as deferred compensation liabilities.

(16) Concentrations of Credit Risk

The Hospital is located in McCook, Nebraska. The Hospital grants credits without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	2019	**2018**
Medicare	32%	31%
Medicaid	2	1
Blue Cross	10	11
Other third-party payors	22	22
Private pay	34	35
	100%	100%

(17) Functional Expenses

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

2019

	Program Services						Support Services		
	Inpatient	Emergency	Operating Room	Oncology	Outpatient Clinics	Other	Management and General	Fundraising	Total
Salaries and Wages	$ 3,691,665	896,249	2,297,389	1,312,129	913,416	4,096,199	3,786,435	257,066	17,250,548
Employee health and welfare	1,233,435	299,449	767,589	438,400	305,185	1,406,971	1,265,100	101,564	5,817,693
Supplies and other	2,263,966	1,591,515	2,742,125	3,204,341	1,406,521	5,151,385	2,618,197	94,802	19,072,852
Depreciation	815,166	185,434	854,390	661,589	255,648	1,217,086	279,439	958	4,269,710
Interest	152,681	34,210	124,592	50,453	61,555	195,268	3,144	--	621,903
Insurance	37,251	11,289	38,524	22,482	14,093	69,107	586	--	193,332
Grants to others	--	--	--	--	--	47,248	--	--	47,248
	$ 8,194,164	3,018,146	6,824,609	5,689,394	2,956,418	12,183,264	7,952,901	454,390	47,273,286

2018

	Program Services						Support Services		
	Inpatient	Emergency	Operating Room	Oncology	Outpatient Clinics	Other	Management and General	Fundraising	Total
Salaries and Wages	$ 3,521,426	867,503	2,297,348	1,253,000	892,050	3,523,717	3,631,131	296,019	16,282,194
Employee health and welfare	1,370,011	337,502	893,783	487,480	347,052	1,426,243	1,412,692	116,026	6,390,789
Supplies and other	1,939,399	1,518,009	2,577,821	2,668,220	1,415,531	4,587,730	2,414,467	113,743	17,234,920
Depreciation	834,006	190,108	849,417	667,255	259,095	1,203,599	266,707	958	4,271,145
Interest	180,796	40,510	147,534	59,744	72,890	231,225	3,723	--	736,422
Insurance	39,270	11,673	41,269	21,875	15,034	72,782	606	--	202,509
Grants to others	--	--	--	--	--	60,765	--	--	60,765
	$ 7,884,908	2,965,305	6,807,172	5,157,574	3,001,652	11,106,061	7,729,326	526,746	45,178,744

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function of the Organization. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include employee benefits, purchased services, utilities, other, and depreciation. These expenses are allocated on an estimate of time and effort.

(18) Change in Accounting Principle

Effective July 1, 2018, the Organization adopted the provisions of FASB ASU 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of 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, the following changes were made to the opening balances of net assets:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net assets, as previously reported, June 30, 2017	$ 41,178,533	382,921	1,568,105	--	--	43,129,559
Adoption of ASU 2016-14	(41,178,533)	(382,921)	(1,568,105)	41,178,533	1,951,026	--
Net assets, as restated, June 30, 2017	$ --	--	--	41,178,533	1,951,026	43,129,559

The Community Hospital Association and Affiliate

Exhibit 1

Consolidating Balance Sheets
June 30, 2019

	Hospital	Foundation	Eliminations	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	$ 6,789,292	428,476	--	7,217,768
Receivables:				
Patients	7,407,964	--	--	7,407,964
Other	703,478	84,985	(321,557)	466,906
Inventories	1,746,787	--	--	1,746,787
Prepaid expenses	1,230,477	--	--	1,230,477
Total current assets	17,877,998	513,461	(321,557)	18,069,902
Assets limited as to use	4,322,017	2,316,841	--	6,638,858
Investments	7,921,364	1,392,954	--	9,314,318
Property and equipment, net	33,835,828	--	--	33,835,828
Other assets	183,275	--	--	183,275
Total assets	$ 64,140,482	4,223,256	(321,557)	68,042,181
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term debt	$ 296,647	--	--	296,647
Accounts payable -				
Trade	695,454	333,147	(321,557)	707,044
Construction and equipment	1,551,248	--	--	1,551,248
Accrued salaries, vacation and benefits payable	1,929,687	--	--	1,929,687
Other accrued expenses	745,240	--	--	745,240
Estimated third-party payor settlements	906,478	--	--	906,478
Total current liabilities	6,124,754	333,147	(321,557)	6,136,344
Long-term debt, net of current portion	14,209,999	--	--	14,209,999
Deferred compensation	257,527	--	--	257,527
Total liabilities	20,592,280	333,147	(321,557)	20,603,870
Net assets:				
Without donor restrictions	43,548,202	1,573,268	--	45,121,470
With donor restrictions	--	2,316,841	--	2,316,841
Total net assets	43,548,202	3,890,109	--	47,438,311
Total liabilities and net assets	$ 64,140,482	4,223,256	(321,557)	68,042,181

Consolidating Statements of Operations
For the Year Ended June 30, 2019

	Hospital	Foundation	Eliminations	Consolidated
REVENUE WITHOUT DONOR RESTRICTIONS:				
Net patient service revenue	$ 48,303,201	--	--	48,303,201
Provision for bad debts	(1,224,138)	--	--	(1,224,138)
Net patient service revenue, less provision for bad debts	47,079,063	--	--	47,079,063
Other operating revenue	1,687,271	54,387	--	1,741,658
Total revenue without donor restrictions	48,766,334	54,387	--	48,820,721
EXPENSES:				
Salaries and wages	17,125,457	125,091	--	17,250,548
Employee health and welfare	5,760,224	57,469	--	5,817,693
Supplies and other	18,998,568	74,284	--	19,072,852
Depreciation	4,269,710	--	--	4,269,710
Interest	621,903	--	--	621,903
Insurance	193,332	--	--	193,332
Grants to affiliates and others	--	471,669	(424,421)	47,248
Total expenses	46,969,194	728,513	(424,421)	47,273,286
OPERATING INCOME (LOSS)	1,797,140	(674,126)	424,421	1,547,435
NONOPERATING GAINS, NET:				
Investment income, net	556,570	147,475	--	704,045
Unrestricted gifts, grants and bequests	424,421	157,489	(424,421)	157,489
Nonoperating gains, net	980,991	304,964	(424,421)	861,534
EXCESS (DEFICENCY) OF REVENUE OVER EXPENSES	2,778,131	(369,162)	--	2,408,969
NET CHANGE IN UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	--	229,124	--	229,124
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	$ 2,778,131	(140,038)	--	2,638,093

Consolidating Statements of Changes in Net Assets
For the Year Ended June 30, 2019

	Hospital	Foundation	Eliminations	Consolidated
NET ASSETS WITHOUT DONOR RESTRICTIONS:				
Operating income (loss)	$ 1,797,140	(674,126)	424,421	1,547,435
Nonoperating gains, net	980,991	304,964	(424,421)	861,534
Net change in unrealized gains and losses on other than trading securitites	--	229,124	--	229,124
Increase (decrease) in net assets without donor restrictions	2,778,131	(140,038)	--	2,638,093
NET ASSETS WITH DONOR RESTRICTIONS				
Contributions	--	401,078	--	401,078
Net assets released from restrictions	--	(54,387)	--	(54,387)
Increase in net assets with donor restrictions	--	346,691	--	346,691
CHANGE IN NET ASSETS	2,778,131	206,653	--	2,984,784
NET ASSETS, beginning of year, as restated	40,770,071	3,683,456	--	44,453,527
NET ASSETS, end of year	$ 43,548,202	3,890,109	--	47,438,311

Operating Highlights
For the Years Ended June 30, 2019 and 2018

	2019	2018
Patient days -		
Adult and pediatric	2,518	2,360
Swing bed	907	964
Nursery	253	248
Discharges - Adult, pediatric and swing bed	1,000	1,020
Average length of stay - Adult, pediatric and swing bed	3.41 days	3.26 days
Percent occupancy - Adult, pediatric and swing bed	37.5%	36.4%
Full-time equivalent employees	258.48	251.35
Operations	1,595	1,642
X-Ray examinations	7,327	6,888
Ultrasound procedures	1,518	1,425
Nuclear medicine	356	324
CT scans	2,690	2,352
MRI	830	830
Deliveries	143	132
Physical therapy treatments	29,538	30,107
Occupational therapy treatments	2,213	1,228
Respiratory therapy treatments	7,582	8,076
Emergency room visits	4,196	4,060
Clinic registrations -		
Curtis	1,334	1,172
Trenton	1,548	1,706
Orthopedic	2,394	2,139
Specialty clinic	7,307	7,067
Home Health visits	5,668	3,916
Laboratory tests	60,578	56,928