

The Community Hospital Association and Affiliate
McCook, Nebraska

**Consolidated Financial Statements
and Supplementary Information
June 30, 2020 and 2019**

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, 2020 and 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2020 and 2019 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.

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. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2020 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

SEIM JOHNSON, LLP

Omaha, Nebraska,
December 22, 2020.

The Community Hospital Association and Affiliate

Consolidated Balance Sheets June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,889,591	7,217,768
Receivables -		
Patients, net of allowance for doubtful accounts of \$1,966,000 in 2020 and \$1,610,000 in 2019	7,723,717	7,407,964
Other	479,559	466,906
Inventories	1,923,005	1,746,787
Prepaid expenses	1,206,164	1,230,477
Estimated third-party payor settlements	2,505,587	--
	<u>39,727,623</u>	<u>18,069,902</u>
Total current assets	39,727,623	18,069,902
Assets limited as to use	6,884,433	6,638,858
Investments	8,571,605	9,314,318
Property and equipment, net	40,138,900	33,835,828
Other assets	214,669	183,275
	<u>95,537,230</u>	<u>68,042,181</u>
Total assets	\$ 95,537,230	68,042,181
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 2,268,308	296,647
Accounts payable -		
Trade	815,890	707,044
Construction and equipment	1,184,486	1,551,248
Accrued salaries, vacation and benefits payable	2,086,964	1,929,687
Other accrued expenses	614,622	745,240
Estimated third-party payor settlements	--	906,478
Refundable advances	13,434,216	--
	<u>20,404,486</u>	<u>6,136,344</u>
Total current liabilities	20,404,486	6,136,344
Long-term debt, net of current portion	22,450,975	14,209,999
Deferred compensation	286,044	257,527
	<u>43,141,505</u>	<u>20,603,870</u>
Total liabilities	43,141,505	20,603,870
Net assets:		
Without donor restrictions	50,097,784	45,121,470
With donor restrictions	2,297,941	2,316,841
	<u>52,395,725</u>	<u>47,438,311</u>
Total net assets	52,395,725	47,438,311
Total liabilities and net assets	\$ 95,537,230	68,042,181

See notes to consolidated financial statements

The Community Hospital Association and Affiliate

Consolidated Statements of Operations For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUE WITHOUT DONOR RESTRICTIONS:		
Net patient service revenue	\$ 50,600,992	48,303,201
Provision for bad debts	<u>(1,822,822)</u>	<u>(1,224,138)</u>
Net patient service revenue, less provision for bad debts	48,778,170	47,079,063
Other operating revenue	<u>5,436,132</u>	<u>1,741,658</u>
Total revenue without donor restrictions	<u>54,214,302</u>	<u>48,820,721</u>
EXPENSES:		
Salaries and wages	19,043,664	17,250,548
Employee health and welfare	6,474,221	5,817,693
Supplies and other	19,392,441	19,072,852
Depreciation	4,544,084	4,269,710
Interest	562,926	621,903
Insurance	214,476	193,332
Grants to others	<u>46,904</u>	<u>47,248</u>
Total expenses	<u>50,278,716</u>	<u>47,273,286</u>
OPERATING INCOME	<u>3,935,586</u>	<u>1,547,435</u>
NONOPERATING GAINS, NET:		
Investment income, net	547,559	704,045
Change in unrealized gains and losses on other than trading securities	37,801	229,124
Unrestricted gifts, grants and bequests	<u>455,368</u>	<u>157,489</u>
Nonoperating gains, net	<u>1,040,728</u>	<u>1,090,658</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>\$ 4,976,314</u>	<u>2,638,093</u>

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
Operating income	\$ 3,935,586	1,547,435
Nonoperating gains, net	<u>1,040,728</u>	<u>1,090,658</u>
Increase in net assets without donor restrictions	<u>4,976,314</u>	<u>2,638,093</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions	473,199	401,078
Net assets released from restrictions	<u>(492,099)</u>	<u>(54,387)</u>
Increase (decrease) in net assets with donor restrictions	<u>(18,900)</u>	<u>346,691</u>
INCREASE IN NET ASSETS	4,957,414	2,984,784
NET ASSETS, beginning of year	<u>47,438,311</u>	<u>44,453,527</u>
NET ASSETS, end of year	<u>\$ 52,395,725</u>	<u>47,438,311</u>

See notes to consolidated financial statements

The Community Hospital Association and Affiliate

Consolidated Statements of Cash Flows For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 58,484,568	47,218,306
Cash received from others	5,347,721	1,487,729
Cash paid for employee salaries and related benefits	(25,491,226)	(22,434,607)
Cash paid to suppliers	(19,649,976)	(19,631,902)
Interest paid	(562,926)	(600,761)
Investment income received	547,559	704,045
	<u>18,675,720</u>	<u>6,742,810</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from investments	742,713	1,624,556
Deposits to assets limited as to use, net	(179,257)	(799,874)
(Additions to) deductions from other assets	(31,394)	15,546
Purchase of property and equipment, net	(11,221,795)	(4,187,349)
	<u>(10,689,733)</u>	<u>(3,347,121)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long term debt and interim construction loan	10,509,285	--
Payments on long-term debt	(296,648)	(2,444,131)
Proceeds from restricted contributions	473,199	401,078
	<u>10,685,836</u>	<u>(2,043,053)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	18,671,823	1,352,636
CASH AND CASH EQUIVALENTS, beginning of year	<u>7,217,768</u>	<u>5,865,132</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 25,889,591</u>	<u>7,217,768</u>

See notes to consolidated financial statements

The Community Hospital Association and Affiliate

Consolidated Statements of Cash Flows (Continued) For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in net assets	\$ 4,957,414	2,984,784
Adjustments to reconcile the increase in net assets to net cash provided by operating activities -		
Restricted contributions	(473,199)	(401,078)
Depreciation	4,544,084	4,269,710
Amortization of debt issuance costs	--	21,142
Net change in unrealized gains and losses on other than trading securities	(37,801)	(229,124)
Loss on disposal of property and equipment	7,877	--
(Increase) decrease in current assets -		
Receivables -		
Patient	(315,753)	(1,137,833)
Other	(12,653)	(309,783)
Inventories	(176,218)	(69,532)
Prepaid expenses	24,313	(144,431)
Estimated third-party payor settlements	(2,505,587)	370,598
Increase (decrease) in current liabilities -		
Accounts payable	108,846	(151,755)
Accrued salaries, vacation, and benefits payable	157,277	401,679
Other accrued expenses	(130,618)	231,955
Estimated third-party payor settlements	(906,478)	906,478
Refundable advances	13,434,216	--
Net cash provided by operating activities	\$ <u>18,675,720</u>	<u>6,742,810</u>

See notes to consolidated financial statements

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

(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 both 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.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it 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 and financial markets of many countries. The healthcare industry has experienced volume declines due to the pandemic.

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

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(O).

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, 2020 and 2019, the uncollected balance was \$59,931 and \$31,218, 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 (cost is determined using the first-in, first-out method) or net realizable value.

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

H. *Investments*

Investments in equity securities, debt securities and mutual funds/exchange-traded funds (ETF's) with readily determinable fair values are measured at fair value based on published or quoted market prices.

For the years ended June 30, 2020 and 2019, investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses.

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, 2020 and 2019, \$2,297,941 and \$2,316,841, 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 support without donor restrictions, 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 support with donor restrictions. 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.

The Organization'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 expected cash flows is less than the carrying amount of the asset, a loss is recognized.

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

K. *Refundable Advances*

Refundable advances include funds received under the CARES Act signed by the President on March 27, 2020 for which the related performance obligations have not yet been met. The funds advanced to the Organization are to be used to support healthcare related expenses or lost revenue attributable to the coronavirus pandemic and to ensure uninsured Americans can get testing and treatment for the coronavirus. The amounts received represent a stimulus grant that has guidelines on how the funding may be used rather than a loan that will have to be repaid. Total funds advanced to the Organization under the CARES Act amounted to \$5,462,196. The Organization has met the conditions to recognition a portion of the funds received as revenue and has included \$3,351,565 in the statement of operations in other operating revenue for the year ended June 30, 2020. At June 30, 2020, included in refundable advances, the Organization has \$2,110,631 in funds remaining for future lost revenue and qualifying expenses.

Refundable advances also include amounts received under the under the Accelerated and Advance Payment Program (AAPP) administered by the Centers for Medicare and Medicaid Services. The AAPP is available for providers to ensure cash flows for providers when there is a disruption in Medicare claims processing. The Organization 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 Organization was \$11,323,585. These payments are an advance that providers must pay back beginning one year after receipt of the funds.

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 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 restrictions 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. *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).

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

N. 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.

O. 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.

P. 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.

Q. 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.

R. 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, 2020 and 2019, the Hospital and Foundation had no uncertain tax positions accrued.

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

S. *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.

T. *Performance Indicator*

The consolidated statements of operations include increase in net assets without donor restrictions as the performance indicator.

U. *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.

V. *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 (when considering subsequent ASUs delaying the implementation) is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early application is permitted. The Organization is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. generally accepted accounting principles when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The new standard (when considering subsequent ASUs delaying the implementation) is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Organization has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

W. *Adoption of New Accounting Pronouncements*

During 2020, the Organization adopted the provisions of FASB ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. FASB ASU 2016-01 updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The ASU changes the accounting for equity securities and liabilities accounted for under a fair value option. Equity securities are no longer evaluated for other than temporary impairment and are required to be accounted for at fair value through changes in net assets. As a result, change in unrealized gains and losses on investments, net has been included in the performance indicator in the statement of operations.

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

The Organization also adopted the provisions of FASB ASU 2018-08, Accounting Guidance for Contributions Received and Made. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The implementation of this standard had no impact on the financial statements.

V. *Reclassifications*

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 reporting format.

W. *Subsequent Events*

The Organization considered events occurring through December 22, 2020 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, 2020			
	Commercial Payors	Government Payors	Self Pay	Total
Gross patient service revenue	\$ 24,947,618	45,000,057	2,810,805	72,758,480
Less: Contractual allowances	(3,220,042)	(16,630,244)	--	(19,850,286)
Less: Charity care write-offs	(300,363)	(208,990)	(1,493,437)	(2,002,790)
Less: Community outreach and discounts	(21,959)	(21,945)	(260,508)	(304,412)
Net patient service revenue	21,405,254	28,138,878	1,056,860	50,600,992
Provision for bad debts	(562,909)	(354,131)	(905,782)	(1,822,822)
Net patient service revenue, less provision for bad debts	<u>\$ 20,842,345</u>	<u>27,784,747</u>	<u>151,078</u>	<u>48,778,170</u>
	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	<u>\$ 20,373,158</u>	<u>25,677,934</u>	<u>1,027,971</u>	<u>47,079,063</u>

The Community Hospital Association and Affiliate

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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, 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. The CARES Act has currently suspended this sequestration effective May 1, 2020 through December 31, 2020.

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Gross patient service revenue		
Inpatient services	\$ 14,203,495	15,871,524
Outpatient services	56,369,470	55,749,699
Home Health	1,604,544	1,300,234
Curtis Clinic	202,492	219,047
Trenton Clinic	378,479	370,851
	<u>72,758,480</u>	<u>73,511,355</u>
Deductions from service revenue		
Medicare	14,790,085	17,814,082
Medicaid	1,840,159	2,220,871
Other payors	3,220,042	2,976,554
Charity care, community outreach and discounts	2,307,202	2,196,647
	<u>22,157,488</u>	<u>25,208,154</u>
Net patient service revenue	<u>\$ 50,600,992</u>	<u>48,303,201</u>

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

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 \$285,000 and \$319,000 in 2020 and 2019, 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 51% and 5%, respectively, in 2020, and 50% and 5%, respectively, in 2019, 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 \$2,002,790 and \$1,806,683 for the years ended June 30, 2020 and 2019, 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 \$1,379,000 and \$1,154,000 for the years ended June 30, 2020 and 2019, 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 \$304,412 and \$389,964 for the years ended June 30, 2020 and 2019, respectively, and the amount of those charges are eliminated from net patient service revenue.

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

(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:

	<u>2020</u>	<u>2019</u>
Financial Assets:		
Cash and cash equivalents	\$ 25,889,591	7,217,768
Receivables -		
Patients	7,723,717	7,407,964
Other	479,559	466,906
Estimated third-party payor settlements	2,505,587	--
Assets limited as to use	6,884,433	6,638,858
Investments	<u>8,571,605</u>	<u>9,314,318</u>
 Total financial assets	 <u>52,054,492</u>	 <u>31,045,814</u>
 Less financial assets limited as to use:		
Assets limited as to use -		
Under loan guarantee for debt service	1,180,558	941,400
By board for employee health insurance claims	352,591	502,244
By board for capital improvements	2,767,299	2,620,846
By board designated endowment	1,705,565	1,550,761
Under deferred compensation plan	286,044	257,527
By donor	<u>2,297,941</u>	<u>2,316,841</u>
 Total financial assets limited as to use	 <u>8,589,998</u>	 <u>8,189,619</u>
 Financial assets available for general expenditure	 <u>\$ 43,464,494</u>	 <u>22,856,195</u>

For 2020 and 2019, the Board of Directors of the Hospital has designated \$2,767,299 and \$2,620,846 respectively, to be used for future capital improvements, designated \$352,591 and \$502,244, respectively, to be used for employee health insurance claims and designated \$1,705,565 and \$1,550,761, 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 Hierarchy

The Fair Value Measurements and Disclosure Topic of the FASB ASC defines fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date.

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Notes to Consolidated Financial Statements June 30, 2020 and 2019

Level 2	Pricing inputs other than quoted prices included in Level 1, which are either directly observable, or that can be derived or supported from observable data as of the reporting date.
Level 3	Pricing inputs include those that are significant to the fair value of the financial asset or financial liability, and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

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, 2020 and 2019, 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, 2020 and 2019:

Hospital

	June 30, 2020			
	Total	Level 1	Level 2	Level 3
Assets limited as to use:				
By board for employee health insurance claims -				
Cash and cash equivalents	\$ 352,591	352,591	--	--
By board for capital improvements -				
Cash and cash equivalents	46,658	46,658	--	--
Mutual funds	747,807	747,807	--	--
Corporate bonds and notes	1,972,834	--	1,972,834	--
Under deferred compensation plan -				
Mutual funds	286,044	286,044	--	--
	3,405,934	<u>1,433,100</u>	<u>1,972,834</u>	<u>--</u>
Assets limited as to use, not subject to fair value measurement,				
Under loan guarantee for debt service -				
Certificates of deposit	1,180,558			
Investments not subject to fair value measurement,				
Certificates of deposit	7,004,979			
	\$ <u>11,591,471</u>			

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Notes to Consolidated Financial Statements June 30, 2020 and 2019

	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	--	--
	<u>3,380,617</u>	<u>1,576,280</u>	<u>1,804,337</u>	<u>--</u>
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			
	<u>\$ 12,243,381</u>			

Foundation

	June 30, 2020			
	Total	Level 1	Level 2	Level 3
Investments, including assets limited as to use by donor:				
Cash and cash equivalents	\$ 70,407	70,407	--	--
Mutual funds	2,163,227	2,163,227	--	--
Corporate bonds and notes	1,315,056	--	1,315,056	--
	<u>3,548,690</u>	<u>2,233,634</u>	<u>1,315,056</u>	<u>--</u>
Investments not subject to fair value measurement,				
Certificates of deposit	315,877			
	<u>\$ 3,864,567</u>			

	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	--
	<u>3,398,815</u>	<u>2,296,204</u>	<u>1,102,611</u>	<u>--</u>
Investments not subject to fair value measurement,				
Certificates of deposit	310,980			
	<u>\$ 3,709,795</u>			

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

(6) Investments

The Hospital's investment return for the year ended June 30, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Interest income	\$ 374,411	497,346
Gain (loss) on joint ventures	4,339	48,709
457 Plan investment income	<u>8,887</u>	<u>10,515</u>
Total Hospital investment return	<u>\$ 387,637</u>	<u>556,570</u>

The Foundation's investment return for the year ended June 30, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 85,943	93,585
Realized (gain) loss on sales of investments, net	73,979	53,890
Changes in unrealized gains and losses on other than trading securities	<u>37,801</u>	<u>229,124</u>
Total Foundation investment return	<u>\$ 197,723</u>	<u>376,599</u>

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, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Certificates of deposit and accrued interest	\$ 1,180,558	941,400
Funding requirements	<u>994,098</u>	<u>903,670</u>
Deposits in excess of requirements	<u>\$ 186,460</u>	<u>37,730</u>

(7) Property and Equipment, Net

The following is a summary of the cost of property and equipment at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land and land improvements	\$ 3,544,427	2,985,163
Buildings	34,612,235	26,856,116
Equipment	50,834,805	45,901,738
Construction work-in-progress	<u>1,389,339</u>	<u>4,585,965</u>
	90,380,806	80,328,982
Less accumulated depreciation	<u>(50,241,906)</u>	<u>(46,493,154)</u>
Property and equipment, net	<u>\$ 40,138,900</u>	<u>33,835,828</u>

Depreciation expense of \$4,544,084 and \$4,269,710 in 2020 and 2019, respectively, is included in the accompanying consolidated statements of operations.

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The composition of construction work-in-process as of June 30, 2020 was largely made up of one major project. The 2020 addition and renovation project includes both an addition and remodel of certain hospital areas, and currently has approximately \$12,200,000 of accumulated costs, in which approximately \$11,000,000 has been capitalized and approximately \$1,200,000 is in construction work-in-progress, as of June 30, 2020. The total cost of the project is estimated to be \$21,600,000 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 \$5,600,000 of Hospital funds. Estimated completion date of the project is October 2021.

(8) Long-Term Debt

Long-term debt as of June 30, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
\$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.	\$ 3,583,587	3,652,535
\$15,000,000, 4.25% promissory note payable to Thayer County Bank, full principal and interest due upon the completion of the construction project. The note is guaranteed by the United States Department of Agriculture and is secured by property of the Hospital.	6,271,785	--
\$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.	8,865,654	9,018,600
\$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.	1,760,757	1,835,511
Small Business Association, Payroll Protection Program loan, maturing April 2022, at a fixed interest rate of 1.00%, guaranteed by the Federal government with payments beginning November 14, 2020.	4,350,000	--
Less unamortized debt issuance costs	<u>(112,500)</u>	<u>--</u>
Total long-term debt	<u>\$ 24,719,283</u>	<u>14,506,646</u>

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.

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Notes to Consolidated Financial Statements June 30, 2020 and 2019

The Hospital was granted a \$4,350,000 loan under the Payroll Protection Program administered by a Small Business Administration (SBA) approved partner. The loan is uncollateralized and is fully guaranteed by the Federal government. The loan accrues interest, but payments are not required until November 14, 2020. The Hospital is eligible for loan forgiveness of up to 100% of the loan, upon meeting certain requirements. The Hospital intends to take measures to maximize the loan forgiveness but cannot reasonably determine the portion of the loan that will be ultimately forgiven. The Hospital has recorded a note payable and will record the forgiveness upon being legally released from the loan obligation by the SBA. No forgiveness income has been recorded for the year ended June 30, 2020. The Hospital will be required to repay any remaining balance, plus interest accrued at 1 percent, in monthly payments commencing upon notification of forgiveness or partial forgiveness.

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 \$-0- and \$21,142 in 2020 and 2019, respectively, is included in interest expense in the consolidated statements of operations.

The Hospital has a line of credit through McCook National Bank with a credit limit of \$500,000 at an interest rate of 4.5%. For the years ended June 30, 2020 and 2019, 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, 2020	
2021	\$ 2,268,308
2022	8,871,960
2023	333,778
2024	345,219
2025	359,863
Thereafter	12,540,155
	<u>\$ 24,719,283</u>

(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.

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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, 2020 and 2019:

2020	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 1,705,565	--	1,705,565
Donor-restricted endowment funds	--	1,584,833	1,584,833
Total endowment funds	\$ 1,705,565	1,584,833	3,290,398
2019	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

Changes in endowment net assets for the years ended June 30, 2020 and 2019 are as follows:

2020	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,550,761	1,580,153	3,130,914
Investment return:			
Investment income	93,934	--	93,934
Net realized gain	52,546	--	52,546
Net unrealized gain	33,968	--	33,968
Total investment return	180,448	--	180,448
Contributions	--	4,680	4,680
Transfers	(25,644)	--	(25,644)
	(25,644)	4,680	(20,964)
Endowment net assets, end of year	\$ 1,705,565	1,584,833	3,290,398

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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

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.

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Notes to Consolidated Financial Statements June 30, 2020 and 2019

(10) Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30, 2020 and 2019:

Subject to expenditure for specified purpose:

	<u>2020</u>	<u>2019</u>
Cardio-pulmonary campaign	\$ 297,723	321,557
Unspecified donor funds	268,266	260,275
Cancer care	53,474	45,927
Scholarship	42,884	34,160
Trenton medical center	29,202	28,942
Curtis medical center	6,400	6,400
Emergency funds	7,157	5,852
Pediatric room	3,188	3,188
Purchase of property and equipment	671	228
Other	4,143	30,159
	<u>713,108</u>	<u>736,688</u>

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	1,364,413	1,359,733
	<u>1,584,833</u>	<u>1,580,153</u>

Total endowments

Total net assets with donor restrictions

\$	<u>2,297,941</u>	<u>2,316,841</u>
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(11) Other Operating Revenue

Other revenue for the years ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Provider relief funds	\$ 3,351,565	--
Net assets released from restrictions	492,099	54,387
340b drug program	331,163	447,031
Rental and housekeeping revenue	316,657	323,352
Cafeteria revenue	210,959	207,031
Out-source services	162,546	195,516
Medical records transcript fees	7,994	10,515
Grant revenue	6,550	60,272
Loss on disposal of property and equipment	(7,877)	--
Miscellaneous	564,476	443,554
	<u>\$ 5,436,132</u>	<u>1,741,658</u>

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

Total funds advanced to the Organization under the CARES Act amounted to \$5,462,196. The Hospital has met the conditions to recognition a portion of the funds received as revenue and has included \$3,351,565 in other operating revenue in the statement of operations for the year ended June 30, 2020.

(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, 2020 and 2019, 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, 2020, that have initial or remaining lease terms in excess of one year:

<u>Year</u>	<u>Amount</u>
2021	\$ 216,103
2022	219,148
2023	219,148
2024	219,148
2025	<u>219,148</u>
	<u>\$ 1,311,843</u>

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

(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 \$1,154,281 and \$1,085,449 for the years ended June 30, 2020 and 2019 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 \$286,044 and \$257,527 as of June 30, 2020 and 2019, respectively, are included within the accompanying consolidated balance sheets as assets limited as to use. A liability of \$286,044 and \$257,527 as of June 30, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
Medicare	31%	32%
Medicaid	1	2
Blue Cross	13	10
Other third-party payors	22	22
Private pay	<u>33</u>	<u>34</u>
	<u>100%</u>	<u>100%</u>

The Community Hospital Association and Affiliate

Notes to Consolidated Financial Statements June 30, 2020 and 2019

(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, 2020 and 2019:

	2020								
	Program Services						Support Services		Total
	Inpatient	Emergency	Operating Room	Oncology	Outpatient Clinics	Other	Management and General	Fundraising	
Salaries and Wages	\$ 4,022,348	908,123	2,555,181	1,502,922	1,132,492	4,597,142	4,189,564	135,892	19,043,664
Employee health and welfare	1,358,316	306,666	862,865	507,525	382,434	1,533,747	1,414,783	107,885	6,474,221
Supplies and other	2,068,516	1,602,691	2,526,695	3,804,731	1,070,589	5,501,189	2,727,410	90,620	19,392,441
Depreciation	889,123	181,865	749,211	677,946	261,675	1,474,748	308,559	957	4,544,084
Interest	137,880	30,894	112,781	45,562	55,588	177,382	2,839	--	562,926
Insurance	41,121	12,485	41,054	27,042	15,183	76,924	667	--	214,476
Grants to others	--	--	--	--	--	46,904	--	--	46,904
	<u>\$ 8,517,304</u>	<u>3,042,724</u>	<u>6,847,787</u>	<u>6,565,728</u>	<u>2,917,961</u>	<u>13,408,036</u>	<u>8,643,822</u>	<u>335,354</u>	<u>50,278,716</u>

	2019								
	Program Services						Support Services		Total
	Inpatient	Emergency	Operating Room	Oncology	Outpatient Clinics	Other	Management and General	Fundraising	
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
	<u>\$ 8,194,164</u>	<u>3,018,146</u>	<u>6,824,609</u>	<u>5,689,394</u>	<u>2,956,418</u>	<u>12,183,264</u>	<u>7,952,901</u>	<u>454,390</u>	<u>47,273,286</u>

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. Utilities and depreciation are allocated based on square feet. The remaining allocated expenses are allocated on an estimate of time and effort.

(18) Subsequent Event

On December 21, 2020 Congress Passed H.R. 133 The Consolidated Appropriations Act of 2021 which directed the Department of Health and Human Services to use guidance issued prior to June 30, 2020 related to relief funds. This was passed in response to reporting requirements that were issued on September 19, 2020, October 22, 2020, and on November 2, 2020 that differed from the guidance received prior to June 30, 2020. The final requirements could impact the amounts previously recorded as other operating revenue and could impact the amounts recorded in subsequent periods. Management is evaluating the impact of the new requirements and awaiting further clarification, but any changes in reporting requirements could have a material impact on the financial statements in the future.

Consolidating Balance Sheets
June 30, 2020

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 25,267,153	622,438	--	25,889,591
Receivables:				
Patients	7,723,717	--	--	7,723,717
Other	731,355	45,927	(297,723)	479,559
Inventories	1,923,005	--	--	1,923,005
Prepaid expenses	1,206,164	--	--	1,206,164
Estimated third-party payor settlements	2,505,587	--	--	2,505,587
Total current assets	<u>39,356,981</u>	<u>668,365</u>	<u>(297,723)</u>	<u>39,727,623</u>
Assets limited as to use	4,586,492	2,297,941	--	6,884,433
Investments	7,004,979	1,566,626	--	8,571,605
Property and equipment, net	40,138,900	--	--	40,138,900
Other assets	214,669	--	--	214,669
Total assets	<u>\$ 91,302,021</u>	<u>4,532,932</u>	<u>(297,723)</u>	<u>95,537,230</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term debt	\$ 2,268,308	--	--	2,268,308
Accounts payable -				
Trade	804,300	309,313	(297,723)	815,890
Construction and equipment	1,184,486	--	--	1,184,486
Accrued salaries, vacation and benefits payable	2,086,964	--	--	2,086,964
Other accrued expenses	614,622	--	--	614,622
Refundable advances	13,434,216	--	--	13,434,216
Total current liabilities	<u>20,392,896</u>	<u>309,313</u>	<u>(297,723)</u>	<u>20,404,486</u>
Long-term debt, net of current portion	22,450,975	--	--	22,450,975
Deferred compensation	286,044	--	--	286,044
Total liabilities	<u>43,129,915</u>	<u>309,313</u>	<u>(297,723)</u>	<u>43,141,505</u>
Net assets:				
Without donor restrictions	48,172,106	1,925,678	--	50,097,784
With donor restrictions	--	2,297,941	--	2,297,941
Total net assets	<u>48,172,106</u>	<u>4,223,619</u>	<u>--</u>	<u>52,395,725</u>
Total liabilities and net assets	<u>\$ 91,302,021</u>	<u>4,532,932</u>	<u>(297,723)</u>	<u>95,537,230</u>

The Community Hospital Association and Affiliate

Exhibit 2

Consolidating Statements of Operations
For the Year Ended June 30, 2020

	Hospital	Foundation	Eliminations	Consolidated
REVENUE WITHOUT DONOR RESTRICTIONS:				
Net patient service revenue	\$ 50,600,992	--	--	50,600,992
Provision for bad debts	(1,822,822)	--	--	(1,822,822)
Net patient service revenue, less provision for bad debts	48,778,170	--	--	48,778,170
Other operating revenue	4,944,033	492,099	--	5,436,132
Total revenue without donor restrictions	53,722,203	492,099	--	54,214,302
EXPENSES:				
Salaries and wages	18,926,345	117,319	--	19,043,664
Employee health and welfare	6,412,225	61,996	--	6,474,221
Supplies and other	19,318,015	74,426	--	19,392,441
Depreciation	4,544,084	--	--	4,544,084
Interest	562,926	--	--	562,926
Insurance	214,476	--	--	214,476
Grants to affiliates and others	--	539,039	(492,135)	46,904
Total expenses	49,978,071	792,780	(492,135)	50,278,716
OPERATING INCOME (LOSS)	3,744,132	(300,681)	492,135	3,935,586
NONOPERATING GAINS, NET:				
Investment income, net	387,637	159,922	--	547,559
Change in unrealized gains and losses on other than trading securities	--	37,801	--	37,801
Unrestricted gifts, grants and bequests	492,135	455,368	(492,135)	455,368
Nonoperating gains, net	879,772	653,091	(492,135)	1,040,728
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	\$ 4,623,904	352,410	--	4,976,314

Consolidating Statements of Changes in Net Assets
For the Year Ended June 30, 2020

	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:				
Operating income (loss)	\$ 3,744,132	(300,681)	492,135	3,935,586
Nonoperating gains, net	<u>879,772</u>	<u>653,091</u>	<u>(492,135)</u>	<u>1,040,728</u>
Increase in net assets without donor restrictions	<u>4,623,904</u>	<u>352,410</u>	<u>--</u>	<u>4,976,314</u>
NET ASSETS WITH DONOR RESTRICTIONS				
Contributions	--	473,199	--	473,199
Net assets released from restrictions	--	<u>(492,099)</u>	--	<u>(492,099)</u>
Decrease in net assets with donor restrictions	<u>--</u>	<u>(18,900)</u>	<u>--</u>	<u>(18,900)</u>
CHANGE IN NET ASSETS	4,623,904	333,510	--	4,957,414
NET ASSETS, beginning of year	<u>43,548,202</u>	<u>3,890,109</u>	<u>--</u>	<u>47,438,311</u>
NET ASSETS, end of year	<u>\$ 48,172,106</u>	<u>4,223,619</u>	<u>--</u>	<u>52,395,725</u>

Operating Highlights
For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Patient days -		
Adult and pediatric	2,365	2,518
Swing bed	602	907
Nursery	231	253
Discharges - Adult, pediatric and swing bed	897	1,000
Average length of stay - Adult, pediatric and swing bed	3.30 days	3.41 days
Percent occupancy - Adult, pediatric and swing bed	32.4%	37.5%
Full-time equivalent employees	268.19	258.48
Operations	1,389	1,595
X-Ray examinations	7,291	7,327
Ultrasound procedures	1,483	1,518
Nuclear medicine	303	356
CT scans	2,824	2,690
MRI	820	830
Deliveries	135	143
Physical therapy treatments	28,038	29,538
Occupational therapy treatments	1,654	2,213
Respiratory therapy treatments	6,976	7,582
Emergency room visits	4,065	4,196
Clinic registrations -		
Curtis	1,156	1,334
Trenton	1,574	1,548
Orthopedic	1,966	2,394
Specialty clinic	6,647	7,307
Home Health visits	6,830	5,668
Laboratory tests	60,471	60,578

The Community Hospital Association and Affiliate

Schedule of Expenditures of Federal Awards and Notes to the Schedule For the Year Ended June 30, 2020

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Agriculture			
Direct Award			
Community Facilities Loans and Grants Cluster			
Community Facilities Loans and Grants	10.766	N/A	\$ <u>6,271,785</u>
Total Community Facilities Loans and Grants Cluster/U.S. Department of Agriculture			<u>6,271,785</u>
U.S. Department of Health and Human Services			
Passed through the State of Nebraska Department of Health and Human Services			
COVID-19 Small Rural Hospital Improvement Grant Program	93.301	N/A	<u>10,170</u>
Passed through the Nebraska Hospital Association			
COVID-19 Preparedness and Response Activities	93.899	N/A	<u>4,700</u>
Total U.S. Department of Health and Human Services			<u>14,870</u>
Total Expenditures of Federal Awards			\$ <u><u>6,286,655</u></u>

The accompanying notes are an integral part of this schedule.

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Hospital under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Hospital.

Note 2: Summary of Significant Accounting

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Indirect Cost Rate

The Hospital has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Community Hospital Association (the Hospital), as of and for the year ended June 30, 2020, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SEIM JOHNSON, LLP

Omaha, Nebraska,
December 22, 2020.

Independent Auditor's Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance as Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited The Community Hospital Association's (the Hospital) compliance, with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended June 30, 2020. The Hospital's major federal program is identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

Opinion on Each Major Federal Program

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

The management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the type of requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

SEIM JOHNSON, LLP

Omaha, Nebraska,
December 22, 2020.

The Community Hospital Association and Affiliate

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2020

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Consolidated Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency(ies) identified? _____ Yes x None Reported

Noncompliance material to consolidated financial statements noted?

_____ Yes x No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ Yes x No
- Significant deficiency(ies) identified? _____ Yes x None Reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes x No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.766	Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B programs

_____ \$750,000 _____

Auditee qualified as low-risk auditee?

_____ Yes x No

II. FINANCIAL STATEMENT FINDINGS

There were no financial statement findings.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs were reported.