

*Audited Financial Statements – Hospital*

The FY2018 Hospital Audited Financial Statement is attached

JASPER HEALTH SERVICES, INC.  
MONTICELLO, GEORGIA

---

FINANCIAL STATEMENTS

for the years ended September 30, 2018 and 2017

## CONTENTS

---

	<u>Pages</u>
Independent Auditor's Report	1-2
Financial Statements:	
Balance Sheets	3
Statements of Operations and Changes in Net Assets	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-25



## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Jasper Health Services, Inc.  
Monticello, Georgia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Jasper Health Services, Inc. (Corporation), which comprise the balance sheets as of September 30, 2018 and 2017, the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Continued

Let's Think Together.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jasper Health Services, Inc. as of September 30, 2018 and 2017, and the results of its operations and 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.

DRAFFIN & TUCKER, LLP

Albany, Georgia  
March 22, 2019

JASPER HEALTH SERVICES, INC.

BALANCE SHEETS, September 30, 2018 and 2017

ASSETS	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 3,339,874	\$ 2,586,172
Patient accounts receivable, net of estimated uncollectibles of approximately \$923,000 in 2018 and \$1,006,000 in 2017	658,518	785,026
Supplies, at lower of cost (first-in, first-out) and net realizable value	144,652	143,666
Other current assets	<u>392,272</u>	<u>232,745</u>
Total current assets	4,535,316	3,747,609
Long-term investments	2,627,669	2,473,317
Property, plant and equipment, net	<u>835,552</u>	<u>668,961</u>
Total assets	<u>\$ 7,998,537</u>	<u>\$ 6,889,887</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 208,282	\$ 214,479
Accrued expenses	574,228	448,652
Estimated third-party payor settlements	802,528	416,175
Due to Oconee Regional Medical Center, Inc.	<u>553,684</u>	<u>553,684</u>
Total current liabilities	2,138,722	1,632,990
Net assets - unrestricted	<u>5,859,815</u>	<u>5,256,897</u>
Total liabilities and net assets	<u>\$ 7,998,537</u>	<u>\$ 6,889,887</u>

See auditor's report and notes to financial statements.

JASPER HEALTH SERVICES, INC.

STATEMENTS OF OPERATIONS  
AND CHANGES IN NET ASSETS  
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted revenues, gains and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 11,056,515	\$ 10,404,851
Provision for bad debts	( 669,231)	( 630,807)
Net patient service revenue	10,387,284	9,774,044
Other revenue	<u>108,364</u>	<u>124,220</u>
Total revenue, gains, and other support	<u>10,495,648</u>	<u>9,898,264</u>
Operating expenses:		
Salaries and wages	5,513,306	5,039,045
Employee health and welfare	1,233,528	1,108,504
Purchased services and professional fees	2,271,946	2,393,955
Supplies and drugs	824,141	800,641
Depreciation	105,518	113,122
Other expenses	<u>1,470,009</u>	<u>1,429,717</u>
Total operating expenses	<u>11,418,448</u>	<u>10,884,984</u>
Operating loss	( 922,800)	( 986,720)
Nonoperating income:		
Investment income	310,784	240,970
Contributions	383,900	346,112
Grants	249,729	-
Rural Hospital Tax Credit	<u>731,449</u>	<u>27,642</u>
Total nonoperating income	<u>1,675,862</u>	<u>614,724</u>

Continued

JASPER HEALTH SERVICES, INC.

STATEMENTS OF OPERATIONS  
AND CHANGES IN NET ASSETS, Continued  
for the years ended September 30, 2018 and 2017

---

	<u>2018</u>	<u>2017</u>
Excess revenues (expenses)	\$ 753,062	\$( 371,996)
Change in unrealized gains (losses) on investments	( 150,144)	<u>97,511</u>
Increase (decrease) in unrestricted net assets	602,918	( 274,485)
Net assets – unrestricted, beginning of year	<u>5,256,897</u>	<u>5,531,382</u>
Net assets – unrestricted, end of year	\$ <u>5,859,815</u>	\$ <u>5,256,897</u>

See auditor's report and notes to financial statements.



JASPER HEALTH SERVICES, INC.

STATEMENTS OF CASH FLOWS  
for the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Changes in net assets	\$ 602,918	\$( 274,485)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	105,518	113,122
Provision for bad debts	669,231	630,807
Net realized gain on other than trading securities	( 236,788)	( 192,980)
Change in unrealized (gain) loss on other than trading securities	150,144	( 97,511)
Changes in:		
Patient accounts receivable	( 542,723)	( 723,327)
Supplies	( 986)	( 14,093)
Other current assets	( 159,527)	( 31,966)
Accounts payable and accrued expenses	119,379	( 83,682)
Due to Oconee Regional Health Systems, Inc.	-	584,845
Estimated third-party payor settlements	<u>386,353</u>	<u>( 34,245)</u>
Net cash provided (used) by operating activities	<u>1,093,519</u>	<u>( 123,515)</u>
Cash flows from investing activities:		
Purchase of property and equipment	( 272,109)	( 71,805)
Proceeds from sale of investments	3,256,682	3,920,462
Purchase of investments	<u>(3,324,390)</u>	<u>(3,967,291)</u>
Net cash used by investing activities	<u>( 339,817)</u>	<u>( 118,634)</u>
Net increase (decrease) in cash and cash equivalents	753,702	( 242,149)
Cash and cash equivalents, beginning of year	<u>2,586,172</u>	<u>2,828,321</u>
Cash and cash equivalents, end of year	<u>\$ 3,339,874</u>	<u>\$ 2,586,172</u>

See auditor's report and notes to financial statements.

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

1. Summary of Significant Accounting Policies

Organization

Jasper Health Services, Inc. (Corporation), incorporated November 8, 1999, is a not-for-profit corporation whose primary purpose is to operate Jasper Memorial Hospital (JMh) (a 17-bed critical access hospital), Retreat Intermediate Care Home ( a 55-bed skilled nursing facility) and the Primary Care Center for Monticello (PCC), a provider-based physician practice, located in Monticello, Georgia.

Pursuant to a lease and transfer agreement dated July 2, 1999, The Hospital Authority of Jasper County leased its facilities and transferred its operating assets, as defined in the agreement, to Oconee Regional Medical Center, Inc. (ORMC). In an assignment agreement dated January 1, 2000, the ORMC assigned the lease to Jasper Health Services, Inc.

On May 10, 2017, ORMC filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Middle District of Georgia. The bankruptcy proceedings were ongoing as of the date the financial statements were available to be issued. The Corporation has not provided ORMC written notice to terminate the lease.

Use of Estimates

The preparation of financial statements in accordance 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 financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Allowance for Doubtful Accounts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Corporation analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts, service dates, and service type and provides an allowance for doubtful accounts and a provision for bad debts, if necessary, based on the anticipated reimbursement. Management also reviews subsequent collection activity to assess the accuracy of the allowance estimated. 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 Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Corporation's allowance for doubtful accounts for self-pay patients was 95% of self-pay accounts receivable at September 30, 2018 and 2017. In addition, the Corporation's self-pay write offs, including write offs for charity and indigent patients, were approximately \$600,000 and \$543,000 for fiscal years 2018 and 2017, respectively.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. Investment income (including realized gains on investments, interest and dividends) is included in excess revenues (expenses) unless the income is restricted by donor or law. Unrealized gains on investments are excluded from excess revenues (expenses) unless the investments are trading securities.

Supplies

Supplies are stated at the lower of cost and net realizable value, using the first-in, first-out method.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Property, Plant, and Equipment

Property, plant, and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from excess revenues (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 and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

The Corporation evaluates on an ongoing basis the recoverability of its assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is required to be recognized if the carrying value of the asset exceeds the undiscounted future net cash flows associated with that asset. The impairment loss to be recognized is the amount by which the carrying value of the long-lived asset exceeds the asset's fair value. In most instances, the fair value is determined by discounted estimated future cash flows using an appropriate interest rate. The Corporation has not recorded any impairment charges in the accompanying statement of operations and changes in net assets for the years ended September 30, 2018 and 2017.

Net Patient Service Revenue

The Corporation has agreements with third-party payors that provide for payments to the Corporation 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 arrangements 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.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Charity Care

The Corporation 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 Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

Excess Revenues (Expenses)

The statement of operations and changes in net assets includes excess revenues (expenses) as a performance indicator. Changes in unrestricted net assets which are excluded from the performance indicator, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Risk Management

The Corporation 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 and natural disasters. The Corporation has purchased insurance to mitigate the risk of loss for these types of damages. See Notes 8 and 9 for more information.

Income Taxes

The Corporation is a not-for-profit corporation that has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Corporation applies accounting policies that prescribe when to recognize and how to measure the financial statement effects of income tax positions taken or expected to be taken on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by the relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, The Corporation only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all or a portion of the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Income Taxes, Continued

Based on the results of management's evaluation, no liability is recognized in the accompanying balance sheet for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of September 30, 2018 and 2017 or for the years then ended. The Corporation's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

Fair Value Measurements

FASB ASC 820, *Fair Value Measurement and Disclosures* defines fair value as the amount that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FASB ASC 820 describes the following three levels of inputs that may be used:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable prices that are based on inputs not quoted on active markets but corroborated by market data.
- Level 3: Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Recently Adopted Accounting Pronouncement

In 2018, the Corporation prospectively adopted the provisions of Financial Accounting Standards Board (FASB) ASU 2015-11, *Simplifying the Measurement of Inventory*. This ASU changes the measurement principle for certain inventory methods from the lower of cost or market to the lower of cost and net realizable value. The Corporation's adoption of this guidance did not have a material effect on the financial statements.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

1. Summary of Significant Accounting Policies, Continued

Accounting Pronouncement Not Yet Adopted

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This comprehensive standard provides guidance on net asset classification and required disclosures on liquidity and availability of resources, requires expanded disclosure about expense and investment returns, and eliminates the requirement to present or disclose the indirect method reconciliation if using the direct method when presenting cash flows. The standard is effective for annual periods beginning after December 15, 2017. The Corporation expects to adopt the new guidance for the year ending September 30, 2019 and is continuing to evaluate the impact the new guidance will have on the financial statements.

Subsequent Event

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 22, 2019, the date the financial statements were available to be issued.

Prior Year Reclassifications

Certain reclassifications have been made to the fiscal year 2017 financial statements to conform to the fiscal year 2018 presentation. These reclassifications had no impact on the change in net assets in the accompanying financial statements.

2. Net Patient Service Revenue

The Corporation has arrangements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. The Corporation does not believe that there are any significant credit risks associated with receivables due from third-party payors.

The Corporation recognizes patient service revenue associated with services provided to patients who have third-party coverage on the basis of anticipated collections and dates of service for services rendered. For uninsured patients that do not qualify for charity care, the Corporation recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

2. Net Patient Service Revenue, Continued

experience, a significant portion of the Corporation's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Corporation records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances (but before the provision for bad debts), from these major payor sources as of September 30, 2018 and 2017 is as follows:

	<u>Patient Service Revenue</u> <u>(Net of Contractual Allowances)</u>	
	<u>2018</u>	<u>2017</u>
Medicare	\$ 3,487,641	\$ 3,147,747
Medicaid	4,369,123	3,687,681
Third-party payors	2,016,885	2,433,119
Self-pay	<u>1,182,866</u>	<u>1,136,304</u>
Net patient service revenue before provision for bad debts	11,056,515	10,404,851
Less provision for bad debts	<u>( 669,231)</u>	<u>( 630,807)</u>
Net patient service revenue	<u>\$ 10,387,284</u>	<u>\$ 9,774,044</u>

Revenue from Medicare and Medicaid programs accounted for approximately 34% and 42%, respectively, of the Corporation's net patient revenue for the year ended 2018, and 32% and 38%, respectively, of the Corporation's net patient revenue for the year ended 2017. 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 future.

The Corporation believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. However, there has been an increase in regulatory initiatives at the state and federal levels including the initiation of the Recovery Audit Contractor (RAC) program and Medicaid Integrity Contractor (MIC) program. These programs were created to review Medicare and Medicaid claims for medical necessity and coding appropriateness. The RAC's have authority to pursue improper payments with a three year look back from the date the

Continued



JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

---

2. Net Patient Service Revenue, Continued

claim was paid. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medicaid programs.

A summary of the payment arrangements with major third-party payors follows:

- Medicare

Jasper Memorial Hospital was granted Critical Access Hospital (CAH) designation by the Medicare program. The CAH designation places certain restrictions on daily acute care inpatient census and an annual, average length of stay of acute care inpatients. Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology.

Nursing Home services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system called Resource Utilization Groups (RUGs).

The Corporation is reimbursed for certain reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicare Administrative Contractor (MAC). The Corporation'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 Corporation. The Corporation's Medicare cost reports have been audited by the MAC through September 30, 2016.

For the 2016 fiscal year, the Corporation anticipated a cost report settlement payable to Medicare. Subsequent to September 30, 2016 but prior to filing the cost report, the Corporation submitted a payment to Medicare and included that payment on the 2016 Medicare cost report. Medicare did not accept the subsequent payment and returned the payment to the Corporation upon receipt. The returned payment related to the 2016 cost report is included in estimated third-party payor settlements in the current liabilities section of the balance sheet. Subsequent to year end the September 30, 2016 Medicare cost report was final settled.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

2. Net Patient Service Revenue, Continued

• Medicaid

Inpatient acute care services rendered to Medicaid program beneficiaries are paid at a prospectively determined rate per admission. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology.

The Corporation is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Corporation and audits thereof by the Medicaid fiscal intermediary. The Corporation's Medicaid cost reports have been audited by the Medicaid fiscal intermediary through September 30, 2015.

The Corporation has also entered into contracts with certain managed care organizations to receive reimbursement for providing services to selected enrolled Medicaid beneficiaries. Payment arrangements with these managed care organizations consist primarily of prospectively determined rates per discharge, discounts from established charges, or prospectively determined per diems.

Long-term care services are reimbursed by the Medicaid program based on a prospectively determined per diem. The per diem is determined by the facility's historical allowable operating costs adjusted for certain incentives and inflation factors.

The Corporation participates in the Georgia Indigent Care Trust Fund (ICTF) Program. The Corporation receives ICTF payments for treating a disproportionate number of Medicaid and other indigent patients. ICTF payments are based on the Corporation's estimated uncompensated cost of services to Medicaid and uninsured patients. The amount of ICTF payments recognized in net patient service revenue was approximately \$189,000 and \$204,000, respectively for the years ended September 30, 2018 and 2017.

The Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) provides for payment adjustments to certain facilities based on the Medicaid Upper Payment Limit (UPL). The UPL payment adjustments are based on a measure of the difference between Medicaid payments and the amount that could be paid based on Medicare payment principles. The net amount of UPL payment adjustments recognized in net patient service revenue was approximately \$1,081,000 and \$796,000, respectively for the years ended September 30, 2018 and 2017.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

---

2. Net Patient Service Revenue, Continued

• Other Arrangements

The Corporation has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Corporation under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

• Uninsured Patients

The Corporation has a Financial Assistance Policy (FAP) in accordance with Internal Revenue Code Section 501(r). Based on the FAP, following a determination of financial assistance eligibility, an individual will not be charged more than the Amounts Generally Billed (AGB) for emergency or other medical care provided to individuals with insurance covering that care. AGB is calculated by reviewing claims that have been paid in full (including deductibles and coinsurance paid by the patient) to the Corporation for medically necessary care by Medicare and private health insurers during a 12-month look-back period.

3. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2018 and 2017 were approximately \$3,296,000 and \$3,296,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$135,000 and \$132,000, respectively in 2018 and 2017. The cost of charity and indigent care services provided during 2018 and 2017 were approximately \$112,000 and \$110,000, respectively computed by applying a total cost factor to the charges foregone.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

3. Uncompensated Services, Continued

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Gross patient charges	\$ <u>13,683,540</u>	\$ <u>13,069,934</u>
Uncompensated services:		
Charity and indigent care	134,662	132,002
Medicare	1,431,194	1,406,051
Medicaid	889,341	794,535
Medicaid UPL payments	( 1,081,393)	( 795,790)
Other allowances	1,253,221	1,128,285
Bad debts	<u>669,231</u>	<u>630,807</u>
Total uncompensated care	<u>3,296,256</u>	<u>3,295,890</u>
Net patient service revenue	\$ <u>10,387,284</u>	\$ <u>9,774,044</u>

4. Concentration of Credit Risk

The Corporation grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	49%	52%
Medicaid	31%	28%
Third-party payors	16%	16%
Patients	<u>4%</u>	<u>4%</u>
Total	<u>100%</u>	<u>100%</u>

At September 30, 2018 and 2017, the Corporation had deposits with financial institutions which exceeded the \$250,000 Federal Depository Insurance Corporation limit. Management believes the credit risks related to these deposits is minimal.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

5. Long-Term Investments

The composition of long-term investments as of September 30, 2018 and 2017 is set forth in the following table. Investments are stated at fair value.

	<u>2018</u>	<u>2017</u>
Available-for-sale:		
Cash and cash equivalents	\$ 5,532	\$ 1,699
Equities	1,021,595	1,218,142
Limited partnerships	-	103,285
Real estate investment trusts	-	68,035
Mutual funds – closed-end funds	1,274,516	567,351
Exchange traded funds	<u>326,026</u>	<u>514,805</u>
Total long-term investments	<u>\$ 2,627,669</u>	<u>\$ 2,473,317</u>

The following table provides a summary of the Corporation's investments as of September 30, 2018 and 2017, for which the cost basis of securities exceeds fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss positions:

Description Of Securities	September 30, 2018					
	Less Than 12 Months		12 Months or More		Total	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Equities	\$ 338,958	\$( 41,760)	\$ 23,049	\$( 4,857)	\$ 362,007	\$( 46,617)
Mutual funds - closed-ended funds	1,255,685	(113,898)	-	-	1,255,685	(113,898)
Exchange traded funds	<u>169,328</u>	<u>( 10,157)</u>	<u>-</u>	<u>-</u>	<u>169,328</u>	<u>( 10,157)</u>
Total	<u>\$ 1,763,971</u>	<u>\$(165,815)</u>	<u>\$ 23,049</u>	<u>\$( 4,857)</u>	<u>\$ 1,787,020</u>	<u>\$(170,672)</u>

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

5. Long-Term Investments, Continued

Description Of Securities	September 30, 2017					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Equities	\$ 222,637	\$( 17,204)	\$ -	\$ -	\$ 222,637	\$( 17,204)
Exchange traded funds	<u>347,400</u>	<u>( 1,370)</u>	<u>-</u>	<u>-</u>	<u>347,400</u>	<u>( 1,370)</u>
Total	<u>\$ 570,037</u>	<u>\$( 18,574)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 570,037</u>	<u>\$( 18,574)</u>

Management evaluates securities for other-than-temporary impairment at least on an annual basis, and more frequently when economic or market concerns warrant such evaluation. In analyzing an issuer's financial condition, management considers whether the investments are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

Management has considered the nature of investments in an unrealized loss position, the cause of their impairment, the severity and duration of their impairment, the current global economic conditions, the Corporation's intentions to sell or ability to hold the investments, and other relevant information available to management in determining if investments are other than temporarily impaired. Based on an evaluation of these factors, the Corporation has concluded that the declines in fair values of the Corporation's investments reported in the above table are temporary.

Investment income and gains for long-term investments are comprised of the following for the years ending September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Income:		
Interest and dividends	\$ 99,249	\$ 69,417
Realized gains on sales of securities	236,788	192,980
Investment expenses	<u>( 25,253)</u>	<u>( 21,427)</u>
	<u>\$ 310,784</u>	<u>\$ 240,970</u>
Other changes in unrestricted net assets:		
Unrealized gain (loss) on other than trading securities	<u>\$( 150,144)</u>	<u>\$ 97,511</u>

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

5. Long-Term Investments, Continued

The Corporation's investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying financial statements.

6. Property, Plant, and Equipment

A summary of property, plant and equipment at September 30, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,607	\$ 3,607
Land improvements	121,523	121,523
Buildings	1,688,692	1,688,692
Equipment	<u>3,168,659</u>	<u>2,971,777</u>
	4,982,481	4,785,599
Less accumulated depreciation	<u>4,210,556</u>	<u>4,116,638</u>
	771,925	668,961
Construction in progress	<u>63,627</u>	<u>-</u>
Property, plant, and equipment, net	<u>\$ 835,552</u>	<u>\$ 668,961</u>

Depreciation expense for the years ended September 30, 2018 and 2017 amounted to approximately \$106,000 and \$113,000, respectively. At September 30, 2018 and 2017, the Corporation had no outstanding construction commitments.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

---

7. Retirement Plan

The Corporation has a defined contribution pension plan (Plan) covering substantially all eligible employees. There are no age or service requirements for employees to be eligible for salary deferrals. The Corporation provides a discretionary tiered match currently equal to 100% of the first 3% and 80% of the next 3% of base compensation that a participant elects to defer to the Plan. The Corporation also may make an incremental discretionary contribution to the Plan based on each participant's annual compensation. In order to qualify for the employer contributions, a participant must have completed 24 months of service and be 21 years of age. The total contribution expense for the Plan was approximately \$151,000 and \$105,000 in 2018 and 2017, respectively.

8. Employee Health Insurance

The Corporation purchased health insurance coverage for employees under which monthly premiums are paid to Blue Cross Blue Shield. Blue Cross Blue Shield is then responsible for payment of all claims. The total expense related to this plan was approximately \$472,000 and \$455,000, respectively for the years ended September 30, 2018 and 2017.

9. Malpractice Insurance

The Corporation is covered by a claims-made general and professional liability insurance policy with a specified deductible of \$100,000 per incident and excess coverage on a claims-made basis. Liability limits related to this policy in 2018 and 2017 are \$1 million per occurrence and \$3 million in aggregate. In addition, the Corporation is covered by an umbrella policy of up to \$3 million per occurrence and \$3 million aggregate. The Corporation uses a third-party administrator to review and analyze incidents that may result in a claim against the Corporation. In conjunction with the third-party administrator, incidents are assigned reserve amounts for ultimate liability that may result from an asserted claim.

Various claims and assertions have been made against the Corporation in its normal course of providing services. In addition, other claims may be asserted arising from services provided to patients in the past. In the opinion of management, adequate provision has been made for losses which may occur from such asserted and unasserted claims that are not covered by liability insurance.

Continued



JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

10. Commitments and Contingencies

Software Agreement

In April 2017, the Corporation entered into a 7-year agreement with Cerner for certain software and support services. The following is a schedule by year of the future payments under the terms of the agreement.

<u>Year Ending</u>	<u>Amount at September 30</u>
2019	\$ 390,624
2020	390,624
2021	390,624
2022	390,624
2023	<u>390,624</u>
Total	<u>\$ 1,953,120</u>

Litigation

The Corporation is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation's future financial position or results from operations.

Compliance Plan

The healthcare industry has been subjected to increased scrutiny from governmental agencies at both the federal and state level with respect to compliance with regulations. Areas of noncompliance identified at the national level include Medicare and Medicaid, Internal Revenue Service, and other regulations governing the healthcare industry. In addition, the Reform Legislation includes provisions aimed at reducing fraud, waste, and abuse in the healthcare industry. These provisions allocate significant additional resources to federal enforcement agencies and expand the use of private contractors to recover potentially inappropriate Medicare and Medicaid payments. The Corporation has implemented a compliance plan focusing on such issues. There can be no assurance that the Corporation will not be subjected to future investigations with accompanying monetary damages.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

10. Commitments and Contingencies, Continued

Health Care Reform

There has been increasing pressure on Congress and some state legislatures to control and reduce the cost of healthcare at the national and the state levels. Legislation has been passed that includes cost controls on healthcare providers, insurance market reforms, delivery system reforms and various individual and business mandates among other provisions. The costs of these provisions are and will be funded in part by reductions in payments by government programs, including Medicare and Medicaid. There can be no assurance that these changes will not adversely affect the Corporation.

11. Functional Expenses

The Corporation provides general health care services to residents in Jasper County and the surrounding areas in Georgia. Expenses related to providing these services at September 30, 2018 and 2017, are as follows:

	<u>2018</u>	<u>2017</u>
Patient care services	\$ 8,918,678	\$ 8,288,747
General and administrative	<u>2,499,770</u>	<u>2,596,237</u>
Total	<u>\$ 11,418,448</u>	<u>\$ 10,884,984</u>

12. Related Party Transactions

In December 2016, ORMC began posting charges to the Corporation on an intercompany account for an allocation of ORMC's investment banker fees, attorneys' fees, accounting fees and other charges, all of which are disputed by the Corporation. In the bankruptcy case, ORMC has scheduled a claim against the Corporation for management fees and other charges, all of which are also disputed by the Corporation. The total amount payable to ORMC, based on ORMC's disputed postings, at September 30, 2018 and 2017 was

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

12. Related Party Transactions, Continued

approximately \$554,000. These amounts are pending the ongoing bankruptcy proceedings of ORMC as of the date the financial statements were available to be issued. See schedule of amounts below:

	<u>2018</u>	<u>2017</u>
Management fees	\$ 379,000	\$ 379,000
Legal and insurance expense	147,000	147,000
Other purchased services	<u>28,000</u>	<u>28,000</u>
Due to ORMC	<u>\$ 554,000</u>	<u>\$ 554,000</u>

13. Fair Value Measurement

Fair value of assets measured on a recurring basis at September 30, 2018 and 2017 are as follows:

	<u>September 30, 2018</u>	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>		
			<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:					
Cash and cash equivalents		\$ 5,532	\$ 5,532	\$ -	\$ -
Equities		1,021,595	1,021,595	-	-
Mutual funds - closed-end funds		1,274,516	1,274,516	-	-
Exchange traded funds		<u>326,026</u>	<u>326,026</u>	<u>-</u>	<u>-</u>
Total assets		<u>\$ 2,627,669</u>	<u>\$ 2,627,669</u>	<u>\$ -</u>	<u>\$ -</u>

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued  
September 30, 2018 and 2017

13. Fair Value Measurement, Continued

	<u>September 30, 2017</u>	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>					
			<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>			
<b>Assets:</b>								
Cash and cash equivalents	\$	1,699	\$	1,699	\$	-	\$	-
Equities		1,218,142		1,218,142		-		-
Limited partnerships		103,285		103,285		-		-
Real estate investment trusts		68,035		68,035		-		-
Mutual funds – closed-end funds		567,351		567,351		-		-
Exchange traded funds		<u>514,805</u>		<u>514,805</u>		<u>-</u>		<u>-</u>
Total assets		<u>\$ 2,473,317</u>		<u>\$ 2,473,317</u>		<u>\$ -</u>		<u>\$ -</u>

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Valuation techniques utilized to determine fair value are consistently applied. All assets have been valued using a market approach.

14. Rural Hospital Tax Credit Contributions

The State of Georgia (State) passed legislation which will allow individuals or corporations to receive a State tax credit for making a contribution to certain qualified rural hospital organization during calendar years 2017 through 2021. The Corporation submitted the necessary documentation and was approved by the State to participate in the rural hospital tax credit program for calendar years 2017 and 2018. Contributions received under the program approximated \$731,000 during fiscal year 2018 and \$28,000 during fiscal year 2017. The Corporation will have to be approved by the State to participate in the program in each subsequent year.