

Audited Financial Statements - Hospital

The FY2019 Hospital Audited Financial Statement is attached.

JASPER HEALTH SERVICES, INC.
MONTICELLO, GEORGIA



FINANCIAL STATEMENTS

for the years ended September 30, 2019 and 2018

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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, 2019 and 2018, 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.

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.

Continued

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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, 2019 and 2018, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Corporation adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Accounting Standards Update (ASU) No. 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

DRAFFIN + TUCKER, LLP

Albany, Georgia
June 12, 2020

JASPER HEALTH SERVICES, INC.

BALANCE SHEETS, September 30, 2019 and 2018

	ASSETS	
	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 1,692,569	\$ 3,339,874
Patient accounts receivable, net of estimated uncollectibles of approximately \$865,000 in 2019 and \$923,000 in 2018	819,713	658,518
Supplies, at lower of cost (first-in, first-out) and net realizable value	123,749	144,652
Estimated third-party payor settlements	76,036	-
Other current assets	<u>456,128</u>	<u>392,272</u>
Total current assets	<u>3,168,195</u>	<u>4,535,316</u>
Long-term investments	<u>2,507,789</u>	<u>2,627,669</u>
Property, plant and equipment, net	<u>1,546,806</u>	<u>835,552</u>
Total assets	<u>\$ 7,222,790</u>	<u>\$ 7,998,537</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 366,499	\$ 208,282
Accrued expenses	531,890	574,228
Estimated third-party payor settlements	-	802,528
Due to Oconee Regional Medical Center, Inc.	<u>1,500,000</u>	<u>553,684</u>
Total current liabilities	2,398,389	2,138,722
Net assets without donor restrictions	<u>4,824,401</u>	<u>5,859,815</u>
Total liabilities and net assets	<u>\$ 7,222,790</u>	<u>\$ 7,998,537</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues, gains and other support:		
Patient service revenue (net of contractual allowances and discounts)	\$ 11,735,703	\$ 11,056,515
Provision for bad debts	<u>(706,185)</u>	<u>(669,231)</u>
Net patient service revenue	11,029,518	10,387,284
Other revenue	<u>89,488</u>	<u>108,364</u>
Total revenues, gains and other support	<u>11,119,006</u>	<u>10,495,648</u>
Operating expenses:		
Salaries and wages	6,052,530	5,513,306
Employee health and welfare	1,205,932	1,233,528
Purchased services and professional fees	3,197,053	2,271,946
Supplies and drugs	809,935	824,141
Depreciation	147,267	105,518
Other expenses	<u>1,577,105</u>	<u>1,470,009</u>
Total operating expenses	<u>12,989,822</u>	<u>11,418,448</u>
Operating loss	<u>(1,870,816)</u>	<u>(922,800)</u>
Nonoperating income (loss):		
Investment income (loss)	(153,239)	310,784
Contributions	500,685	383,900
Grants	42,327	249,729
Rural Hospital Tax Credit contributions	<u>390,810</u>	<u>731,449</u>
Total nonoperating income	<u>780,583</u>	<u>1,675,862</u>

Continued

JASPER HEALTH SERVICES, INC.

STATEMENTS OF OPERATIONS
AND CHANGES IN NET ASSETS, Continued
for the years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Excess revenues (expenses)	\$ (1,090,233)	\$ 753,062
Change in unrealized gains (losses) on investments	<u>54,819</u>	<u>(150,144)</u>
Increase (decrease) in net assets without donor restrictions	(1,035,414)	602,918
Net assets without donor restrictions, beginning of year	<u>5,859,815</u>	<u>5,256,897</u>
Net assets without donor restrictions, end of year	<u>\$ 4,824,401</u>	<u>\$ 5,859,815</u>

See auditor's report and notes to financial statements.

JASPER HEALTH SERVICES, INC.

STATEMENTS OF CASH FLOWS
for the years ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Changes in net assets	\$ (1,035,414)	\$ 602,918
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	147,267	105,518
Provision for bad debts	706,185	669,231
Net realized (gain) loss on other than trading securities	244,358	(236,788)
Change in unrealized (gain) loss on other than trading securities	(54,819)	150,144
Changes in:		
Patient accounts receivable	(867,380)	(542,723)
Supplies	20,903	(986)
Other current assets	(63,856)	(159,527)
Accounts payable and accrued expenses	115,879	119,379
Due to Oconee Regional Medical Center Inc.	946,316	-
Estimated third-party payor settlements	<u>(878,564)</u>	<u>386,353</u>
Net cash provided (used) by operating activities	<u>(719,125)</u>	<u>1,093,519</u>
Cash flows from investing activities:		
Purchase of property and equipment	(852,072)	(272,109)
Proceeds from sale of investments	4,583,250	3,256,682
Purchase of investments	<u>(4,659,358)</u>	<u>(3,324,390)</u>
Net cash used by investing activities	<u>(928,180)</u>	<u>(339,817)</u>
Net increase (decrease) in cash and cash equivalents	(1,647,305)	753,702
Cash and cash equivalents, beginning of year	<u>3,339,874</u>	<u>2,586,172</u>
Cash and cash equivalents, end of year	<u>\$ 1,692,569</u>	<u>\$ 3,339,874</u>

See auditor's report and notes to financial statements.

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS

September 30, 2019 and 2018

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 resolved on October 2, 2019. See Note 13 for additional information. 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, 2019 and 2018

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 98% and 95% of self-pay accounts receivable at September 30, 2019 and 2018. In addition, the Corporation's self-pay write offs, including write offs for charity and indigent patients, were approximately \$213,000 and \$598,000 for fiscal years 2019 and 2018, 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, 2019 and 2018

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 increases in net assets without donor restrictions, 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 increases in net assets 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 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, 2019 and 2018.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – net assets available for use in general operations and not subject to donor imposed restrictions. The Board of Directors has discretionary control over these resources. Designated amounts represent those net assets that the Board has set aside for a particular purpose. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Net Assets, Continued

Net assets with donor restrictions – net assets subject to donor imposed restrictions. 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. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. 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 to net assets without donor restrictions.

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.

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 net assets without donor restrictions which are excluded from the performance indicator, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, 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).

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as increases in the appropriate categories of net assets in accordance with donor restrictions.

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 10 and 11 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.

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, 2019 and 2018 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.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

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 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 has adjusted the presentation of these financial statements for all periods presented, except for the disclosures around liquidity and availability of resources and analysis of expenses by nature and function. Those disclosures have been presented for 2019 only, as allowed by ASU No. 2016-14.

Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is a new comprehensive revenue recognition standard. The new guidance, including subsequent amendments, is effective for the Corporation as of October 1, 2019. The Corporation is continuing to evaluate the impact the guidance will have on the financial statements.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Accounting Pronouncements Not Yet Adopted, Continued

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance requires equity investments (except those accounted for under the equity method or those that result in consolidation) to be measured at fair value, with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values; and amends certain disclosure requirements associated with the fair value of financial instruments. The standard is effective for annual periods beginning after December 15, 2018. The Corporation expects to adopt the new guidance for the year ending September 30, 2020 and is continuing to evaluate the impact the guidance will have on the financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for annual periods beginning after December 15, 2018. The Corporation is continuing to evaluate the impact the 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 June 12, 2020, the date the financial statements were available to be issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen. The outbreak is likely to put an unprecedented strain on the US healthcare system, disrupt or delay production and delivery of materials and products in the supply chain, and cause staffing shortages. The extent of the impact of COVID-19 on the Corporation's operation and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on the Corporation's customers, employees, and vendors. All of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the Corporation's financial position or results of operations is uncertain.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

1. Summary of Significant Accounting Policies, Continued

Subsequent Event, Continued

On March 27, 2020, the President signed the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act). Certain provisions of the CARES Act provide relief funds to hospitals and other healthcare providers. The funding will be used to support healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services began distributing funds on April 10, 2020 to eligible providers in an effort to provide relief to both providers in areas heavily impacted by COVID-19 and those providers who are struggling to keep their doors open due to healthy patients delaying care and canceling elective services. The total amount of the support the Corporation is eligible to receive is uncertain at this time.

On April 9, 2020, the Corporation received loan proceeds in the amount of approximately \$1,331,000 under the Paycheck Protection Program (PPP). The PPP, established as part of the CARES Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable after eight weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the eight week period. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1 percent, with a deferral of payments for the first six months. The Corporation intends to use the proceeds for purposes consistent with the PPP. While the Corporation currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, no assurances can be provided.

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 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.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

Patient service revenue, net of contractual allowances (but before the provision for bad debts), from these major payor sources as of September 30, 2019 and 2018 is as follows:

	<u>Patient Service Revenue</u> <u>(Net of Contractual Allowances)</u>	
	<u>2019</u>	<u>2018</u>
Medicare	\$ 3,762,274	\$ 3,487,641
Medicaid	4,277,775	4,369,123
Third-party payors	2,128,010	2,016,885
Self-pay	<u>1,567,644</u>	<u>1,182,866</u>
Net patient service revenue before provision for bad debts	11,735,703	11,056,515
Less provision for bad debts	<u>(706,185)</u>	<u>(669,231)</u>
Net patient service revenue	<u>\$ 11,029,518</u>	<u>\$ 10,387,284</u>

Revenue from Medicare and Medicaid programs accounted for approximately 34% and 39%, respectively, of the Corporation's net patient revenue for the year ended 2019, and 34% and 42%, respectively, of the Corporation's net patient revenue for the year ended 2018. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near 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 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.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

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 2016.

- 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 2016.

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.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

2. Net Patient Service Revenue, Continued

• Medicaid, Continued

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 \$378,000 and \$204,000, respectively for the years ended September 30, 2019 and 2018.

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 \$916,000 and \$1,081,000, respectively for the years ended September 30, 2019 and 2018.

• 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.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

3. Liquidity and Availability

As of September 30, 2019, the Corporation has a working capital of approximately \$769,806 and average days (based on normal expenditures) cash on hand of 51 days.

Financial assets available for general expenditure within one year of the balance sheet date, consists of the following at September 30, 2019:

Cash and cash equivalents	\$ 1,692,569
Patient accounts receivable, net	819,713
Estimated third-party payor settlements	76,036
Due from ICTF and UPL	8,776
Long-term investments	<u>2,507,789</u>

Total financial assets available \$ 5,104,883

None of the financial assets available are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Corporation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

4. Uncompensated Services

The Corporation was compensated for services at amounts less than its established rates. Charges for uncompensated services for 2019 and 2018 were approximately \$2,997,000 and \$3,296,000, respectively.

Uncompensated care includes charity and indigent care services of approximately \$(231,000) and \$135,000, respectively in 2019 and 2018. The cost of charity and indigent care services provided during 2019 and 2018 were approximately \$(214,000) and \$112,000, respectively computed by applying a total cost factor to the charges foregone.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

4. Uncompensated Services, Continued

The following is a summary of uncompensated services and a reconciliation of gross patient charges to net patient service revenue for 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Gross patient charges	\$ 14,026,869	\$ 13,683,540
Uncompensated services:		
Charity and indigent care	(230,712)	134,662
Medicare	1,077,614	1,431,194
Medicaid	734,212	889,341
Medicaid UPL payments	(701,031)	(1,081,393)
Other allowances	1,411,083	1,253,221
Bad debts	<u>706,185</u>	<u>669,231</u>
Total uncompensated care	<u>2,997,351</u>	<u>3,296,256</u>
Net patient service revenue	<u>\$ 11,029,518</u>	<u>\$ 10,387,284</u>

5. 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, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Medicare	47%	49%
Medicaid	30%	31%
Third-party payors	15%	16%
Self-pay	<u>8%</u>	<u>4%</u>
	<u>100%</u>	<u>100%</u>

At September 30, 2019 and 2018, 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, 2019 and 2018

6. Long-Term Investments

The composition of long-term investments as of September 30, 2019 and 2018 is set forth in the following table. Investments are stated at fair value.

	<u>2019</u>	<u>2018</u>
Available-for-sale:		
Cash and cash equivalents	\$ 1,617	\$ 5,532
Equities	1,186,962	1,021,595
Mutual funds - closed-end funds	478,361	1,274,516
Exchange traded funds	<u>840,849</u>	<u>326,026</u>
Total long-term investments	<u>\$ 2,507,789</u>	<u>\$ 2,627,669</u>

The following table provides a summary of the Corporation's investments as of September 30, 2019 and 2018, 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	<u>September 30, 2019</u>					
	<u>Less and 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<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	\$ 352,845	\$ (28,617)	\$ -	\$ -	\$ 352,845	\$ (28,617)
Mutal funds - closed-ended funds	88,340	(137)	298,360	(14,048)	386,700	(14,185)
Exchange traded funds	<u>68,625</u>	<u>(3,743)</u>	<u>-</u>	<u>-</u>	<u>68,625</u>	<u>(3,743)</u>
Total	<u>\$ 509,810</u>	<u>\$ (32,497)</u>	<u>\$ 298,360</u>	<u>\$ (14,048)</u>	<u>\$ 808,170</u>	<u>\$ (46,545)</u>

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

6. Long-Term Investments, Continued

Description Of Securities	September 30, 2018					
	Less and 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)
Mutal 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>

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.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

6. Long-Term Investments, Continued

Investment income and gains and losses for cash and cash equivalents and long-term investments are comprised of the following for the years ending September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Income:		
Interest and dividends	\$ 115,487	\$ 99,249
Realized gains (losses) on sales of securities	(244,358)	236,788
Investment expenses	<u>(24,368)</u>	<u>(25,253)</u>
	<u>\$ (153,239)</u>	<u>\$ 310,784</u>
Other changes in net assets without donor restrictions:		
Unrealized gain (loss) on other than trading securities	<u>\$ 54,819</u>	<u>\$ (150,144)</u>

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.

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JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

7. Property, Plant, and Equipment

A summary of property, plant and equipment at September 30, 2019 and 2018 follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 3,607	\$ 3,607
Land improvements	186,240	121,523
Buildings	1,967,615	1,688,692
Equipment	<u>3,603,636</u>	<u>3,168,659</u>
	5,761,098	4,982,481
Less accumulated depreciation	<u>(4,312,038)</u>	<u>(4,210,556)</u>
	1,449,060	771,925
Construction in progress	<u>97,746</u>	<u>63,627</u>
Property, plant, and equipment, net	<u>\$ 1,546,806</u>	<u>\$ 835,552</u>

Depreciation expense for the years ended September 30, 2019 and 2018 amounted to approximately \$147,000 and \$106,000, respectively. At September 30, 2019 and 2018, the Corporation had no outstanding construction commitments.

8. 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 \$161,000 and \$151,000 in 2019 and 2018, respectively.

9. 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 \$403,000 and \$472,000, respectively for the years ended September 30, 2019 and 2018.

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JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

10. 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 2019 and 2018 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.

11. 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>
2020	\$ 390,624
2021	390,624
2022	390,624
2023	390,624
2024	<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.

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JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

11. Commitments and Contingencies, Continued

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.

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.

12. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services in 2019 are as follows:

	<u>Patient Care Services</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and wages	\$ 5,012,345	\$ 1,040,185	\$ 6,052,530
Employee health and welfare	998,681	207,251	1,205,932
Purchased services and professional fees	1,501,012	1,696,041	3,197,053
Supplies and drugs	740,878	69,057	809,935
Depreciation	119,844	27,423	147,267
Other expenses	<u>321,460</u>	<u>1,255,645</u>	<u>1,577,105</u>
Total	<u>\$ 8,694,220</u>	<u>\$ 4,295,602</u>	<u>\$ 12,989,822</u>

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

12. Functional Expenses, Continued

For 2018, the Corporation had \$8,918,678 of patient care services and \$2,499,770 in general and administrative expenses.

The financial statements report certain expense categories that are attributable to more than one health care service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function, including depreciation and other occupancy costs, are allocated to a function based on a square footage basis. Employee health and welfare expense is allocated consistent with salaries.

13. 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, 2019 and 2018 was approximately \$1,500,000 and \$554,000 for 2019 and 2018, respectively. The bankruptcy proceedings of ORMC were resolved on October 2, 2019. The payment was made to ORMC on October 11, 2019. See schedule of amounts below:

	<u>2019</u>	<u>2018</u>
Management fees	\$ 563,000	\$ 379,000
Legal and insurance expense	147,000	147,000
Other purchased services	<u>790,000</u>	<u>28,000</u>
Due to ORMC	<u>\$ 1,500,000</u>	<u>\$ 554,000</u>

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

14. Fair Value Measurement

Fair value of assets measured on a recurring basis at September 30, 2019 and 2018 are as follows:

	<u>September 30, 2019</u>	<u>Fair Value</u>	<u>Fair Vale 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	\$	1,617	\$ 1,617	\$ -	\$ -
Equities		1,186,962	1,186,962	-	-
Mutual funds - closed-end funds		478,361	478,361	-	-
Exchange traded funds		840,849	840,849	-	-
Total assets	\$	<u>2,507,789</u>	<u>2,507,789</u>	<u>-</u>	<u>-</u>

	<u>September 30, 2018</u>	<u>Fair Value</u>	<u>Fair Vale 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		326,026	326,026	-	-
Total assets	\$	<u>2,627,669</u>	<u>2,627,669</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.

Continued

JASPER HEALTH SERVICES, INC.

NOTES TO FINANCIAL STATEMENTS, Continued
September 30, 2019 and 2018

15. 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 2018 and 2019. Contributions received under the program approximated \$391,000 during fiscal year 2019 and \$731,000 during fiscal year 2018. The Corporation will have to be approved by the State to participate in the program in each subsequent year.