

# **CHADRON COMMUNITY HOSPITAL CORPORATION**

INDEPENDENT AUDITOR'S REPORT,  
FINANCIAL STATEMENTS, AND  
SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2019 AND 2018

**CASEY**  **PETERSON**  
*Leading the Way.*

RAPID CITY, SOUTH DAKOTA  
GILLETTE, WYOMING



**Chadron Community Hospital Corporation**  
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**September 30, 2019 and 2018**

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## Independent Auditor's Report

Board of Directors  
Chadron Community Hospital Corporation  
Chadron, Nebraska

We have audited the accompanying financial statements of Chadron Community Hospital Corporation (a nonprofit healthcare entity), which comprise the statements of financial position as of September 30, 2019 and 2018, and the related statements of operations, changes in net assets, functional expenses, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chadron Community Hospital Corporation as of September 30, 2019 and 2018, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 2 to the financial statements, as of and for the years ended September 30, 2019 and 2018, Chadron Community Hospital Corporation adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) Number 2016-14, *Not-for-Profit Entities (Topic 958)*. The amendments in this update affect not-for-profit entities and the users of their general-purpose financial statements. In addition to changes in the terminology used to describe categories of net assets throughout the financial statements, a statement of functional expenses is now presented, and new disclosures were added. The Hospital adopted this ASU effective for the year ended September 30, 2019 and retroactively applied the standard to the year ended September 30, 2018. Our opinion is not modified with respect to this matter.

## Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Program Expenses for Western Community Health Resources (a department of Chadron Community Hospital Corporation) is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Casey Peterson, Ltd.

Rapid City, South Dakota  
May 20, 2020

## FINANCIAL STATEMENTS

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**Chadron Community Hospital Corporation**  
**Statements of Financial Position**  
**September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,565,795	\$ 2,344,066
Patient Accounts Receivable, Net of Allowances for Uncollectible Accounts (2019, \$668,307; 2018, \$291,717)	4,365,430	4,004,768
Other Receivables	368,441	191,057
Inventories	426,204	339,133
Prepaid Expenses	202,631	154,367
Reinsurance Receivable	139,285	139,285
Estimated Third-party Payor Settlements	<u>699,363</u>	<u>451,118</u>
Total Current Assets	<u>7,767,149</u>	<u>7,623,794</u>
Assets Whose Use is Limited	1,489,082	1,879,598
Property and Equipment, Net	15,860,247	16,502,886
Related-party Notes Receivable	<u>52,000</u>	<u>52,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 25,168,478</u>	<u>\$ 26,058,278</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-term Debt	\$ 680,144	\$ 1,072,008
Current Maturities of Capital Lease	227,732	184,981
Accounts Payable	685,698	598,118
Accrued Salaries, Vacation, and Benefits Payable	1,279,966	1,227,444
Resident Deposits	83,431	85,262
Estimated Third-party Payor Settlements	245,000	552,974
Deferred Revenue	25,052	-
Other Accrued Liabilities	<u>167,780</u>	<u>139,797</u>
Total Current Liabilities	<u>3,394,803</u>	<u>3,860,584</u>
Long-term Debt, Net of Current Maturities	13,092,571	13,789,857
Capital Lease, Net of Current Maturities	<u>338,785</u>	<u>441,080</u>
Total Liabilities	<u>16,826,159</u>	<u>18,091,521</u>
<b>NET ASSETS</b>		
With Donor Restrictions	265,111	270,946
Without Donor Restrictions	<u>8,077,208</u>	<u>7,695,811</u>
Total Net Assets	<u>8,342,319</u>	<u>7,966,757</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 25,168,478</u>	<u>\$ 26,058,278</u>

The accompanying notes are an integral part of this statement.

**Chadron Community Hospital Corporation**  
**Statements of Operations**  
**For the Years Ended September 30, 2019 and 2018**

	2019	2018
<b>REVENUES AND OTHER SUPPORT</b>		
<b>WITHOUT DONOR RESTRICTIONS</b>		
Net Patient Service Revenue	\$ 23,622,602	\$ 23,482,664
Less: Provision for Uncollectible Amounts	<u>(929,279)</u>	<u>(907,211)</u>
Net Patient Service Revenue,		
Less Provision for Uncollectible Amounts	<u>22,693,323</u>	<u>22,575,453</u>
Community Health Service Revenue	1,987,318	1,927,171
Other Revenue	685,758	665,611
Net Assets Released from Restrictions	<u>82,662</u>	<u>83,190</u>
Total Revenues and Other Support		
Without Donor Restrictions	<u>25,449,061</u>	<u>25,251,425</u>
<b>EXPENSES</b>		
Salaries and Benefits	11,810,975	12,231,594
Purchased Services	4,582,102	3,882,347
Supplies and Other	6,584,489	6,857,439
Depreciation and Amortization	1,949,416	1,865,704
Interest	<u>669,606</u>	<u>742,902</u>
Total Expenses	<u>25,596,588</u>	<u>25,579,986</u>
Operating Loss	<u>(147,527)</u>	<u>(328,561)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>		
Grants and Contributions	514,861	470,380
Investment Gain	<u>14,063</u>	<u>5,653</u>
Net Other Non-operating Revenues	<u>528,924</u>	<u>476,033</u>
<b>EXCESS OF REVENUES OVER EXPENSES</b>	<u>\$ 381,397</u>	<u>\$ 147,472</u>

The accompanying notes are an integral part of this statement.

**Chadron Community Hospital Corporation**  
**Statements of Changes in Net Assets**  
**For the Years Ended September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Excess of Revenues Over Expenses	\$ 381,397	\$ 147,472
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>		
Gifts and Bequests with Donor Restrictions	76,827	82,222
Net Assets Released from Restrictions	<u>(82,662)</u>	<u>(83,190)</u>
Decrease in Net Assets with Donor Restrictions	<u>(5,835)</u>	<u>(968)</u>
<b>CHANGE IN NET ASSETS</b>	375,562	146,504
<b>NET ASSETS - BEGINNING</b>	<u>7,966,757</u>	<u>7,820,253</u>
<b>NET ASSETS - ENDING</b>	<u>\$ 8,342,319</u>	<u>\$ 7,966,757</u>

The accompanying notes are an integral part of this statement.

**Chadron Community Hospital Corporation**  
**Statement of Functional Expenses**  
**For the Year Ended September 30, 2019**

	Program Expenses		
	Western Community Health Resources		Total Program Expenses
	Hospital	Resources	
Salaries and Benefits	\$ 8,438,042	\$ 919,493	\$ 9,357,535
Medical Supplies	2,705,960	434,284	3,140,244
Professional Fees	2,431,852	-	2,431,852
Depreciation	1,842,836	21,137	1,863,973
Purchased Services	1,401,640	67,691	1,469,331
Employee Benefits	1,163,925	-	1,163,925
Interest	640,503	-	640,503
Repairs and Maintenance	584,748	7,883	592,631
Payroll Taxes	541,635	-	541,635
Occupancy	479,308	5,740	485,048
Equipment Expense	506,974	-	506,974
Management Fees	-	-	-
Dietary Expense	296,102	-	296,102
Information Technology	242,605	-	242,605
Office Expense	42,376	21,346	63,722
Insurance	225,305	-	225,305
Dues and Subscriptions	150,660	-	150,660
Travel	72,614	49,088	121,702
Indirect Expenses	-	100,114	100,114
Advertising and Promotion	34,810	28,331	63,141
Grant Expenses	82,662	-	82,662
Legal Fees	-	-	-
Accounting Fees	-	-	-
Continuing Education	25,954	10,858	36,812
Miscellaneous Expense	993	-	993
	<u>\$ 21,911,504</u>	<u>\$ 1,665,965</u>	<u>\$ 23,577,469</u>

The accompanying notes are an integral part of this statement.

Management and General Expense	Fundraising Expense	Total Expenses
\$ 423,188	\$ 10,757	\$ 9,791,480
17,827	2,140	3,160,211
-	-	2,431,852
85,443	-	1,949,416
139,381	699	1,609,411
290,378	-	1,454,303
29,103	-	669,606
20,947	109	613,687
23,557	-	565,192
63,188	161	548,397
29,281	-	536,255
443,674	-	443,674
-	-	296,102
47,656	-	290,261
171,171	7,135	242,028
9,239	-	234,544
40,129	-	190,789
28,414	94	150,210
-	-	100,114
28,756	564	92,461
-	-	82,662
51,385	-	51,385
45,780	-	45,780
8,739	113	45,664
111	-	1,104
<u>\$ 1,997,347</u>	<u>\$ 21,772</u>	<u>\$ 25,596,588</u>

The accompanying notes are an integral part of this statement.

**Chadron Community Hospital Corporation**  
**Statement of Functional Expenses**  
**For the Year Ended September 30, 2018**

	Program Expenses		
	Western		Total Program
	Hospital	Community Health Resources	
Salaries and Benefits	\$ 8,395,214	\$ 895,349	\$ 9,290,563
Medical Supplies	2,833,265	346,169	3,179,434
Professional Fees	2,013,474	-	2,013,474
Employee Benefits	1,557,380	-	1,557,380
Depreciation	1,769,490	13,434	1,782,924
Purchased Services	1,141,665	22,670	1,164,335
Interest	708,441	-	708,441
Repairs and Maintenance	623,138	2,143	625,281
Equipment Expense	595,484	-	595,484
Payroll Taxes	540,307	-	540,307
Occupancy	481,036	5,565	486,601
Management Fees	-	-	-
Dietary Expense	289,590	-	289,590
Information Technology	222,529	-	222,529
Office Expense	36,040	28,473	64,513
Insurance	232,076	-	232,076
Indirect Expenses	-	192,434	192,434
Travel	73,715	68,205	141,920
Dues and Subscriptions	124,282	-	124,282
Advertising and Promotion	65,002	28,114	93,116
Legal Fees	-	-	-
Grant Expenses	83,190	-	83,190
Continuing Education	29,265	21,170	50,435
Accounting Fees	-	-	-
Miscellaneous Expense	2,627	-	2,627
	<u>\$ 21,817,210</u>	<u>\$ 1,623,726</u>	<u>\$ 23,440,936</u>

The accompanying notes are an integral part of this statement.

Management and General Expense	Fundraising Expense	Total Expenses
\$ 421,658	\$ 10,474	\$ 9,722,695
15,570	2,318	3,197,322
-	-	2,013,474
386,792	-	1,944,172
82,780	-	1,865,704
126,387	234	1,290,956
34,461	-	742,902
29,737	30	655,048
16,110	-	611,594
24,420	-	564,727
45,109	156	531,866
457,415	-	457,415
-	-	289,590
47,080	-	269,609
186,107	5,980	256,600
9,593	-	241,669
-	-	192,434
21,274	592	163,786
39,226	-	163,508
39,750	1,861	134,727
85,117	-	85,117
-	-	83,190
13,117	219	63,771
35,385	-	35,385
98	-	2,725
<u>\$ 2,117,186</u>	<u>\$ 21,864</u>	<u>\$ 25,579,986</u>

The accompanying notes are an integral part of this statement.

**Chadron Community Hospital Corporation**  
**Statements of Cash Flows**  
**For the Years Ended September 30, 2019 and 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 375,562	\$ 146,504
Adjustment to Reconcile Change in Net Assets to Net Cash Flows Provided by Operating Activities:		
Depreciation and Amortization	1,949,416	1,865,704
Loss on Sale of Assets	-	20,876
Provision for Uncollectible Accounts	929,279	907,211
Unrealized Gain on Assets Whose Use is Limited	-	(4,890)
Change in Assets and Liabilities		
Patient Accounts Receivable	(1,289,941)	(1,114,367)
Other Receivables	(177,384)	(14,750)
Inventories	(87,071)	41,451
Prepaid Expenses	(48,264)	111,037
Reinsurance Receivable	-	(15,381)
Estimated Third-party Payor Settlements	(556,219)	1,097,715
Accounts Payable	87,580	(153,208)
Accrued Salaries, Vacation, and Benefits Payable	52,522	24,694
Deferred Revenue	25,052	-
Rental Deposits	(1,831)	(829)
Other Accrued Liabilities	27,983	561
Net Cash Flows Provided by Operating Activities	<u>1,286,684</u>	<u>2,912,328</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(1,175,428)	(224,349)
Change in Assets Whose Use is Limited	390,516	(456,123)
Net Cash Flows Used by Investing Activities	<u>(784,912)</u>	<u>(680,472)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-term Debt	(1,089,150)	(979,419)
Payments on Capital Lease	(190,893)	(157,693)
Net Cash Flows Used by Financing Activities	<u>(1,280,043)</u>	<u>(1,137,112)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(778,271)	1,094,744
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,344,066</u>	<u>1,249,322</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 1,565,795</u>	<u>\$ 2,344,066</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for Interest	<u>\$ 673,639</u>	<u>\$ 745,578</u>
Equipment Purchased With Capital Lease	<u>\$ 131,349</u>	<u>\$ 100,888</u>

The accompanying notes are an integral part of this statement.

# Chadron Community Hospital Corporation

## Notes to the Financial Statements

### September 30, 2019 and 2018

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#### **NOTE 1 - REPORTING ENTITY AND PROGRAM SERVICES**

##### Reporting Entity

Chadron Community Hospital Corporation located in Chadron, Nebraska is a not-for-profit critical access hospital. The Hospital provides inpatient, outpatient, and emergency care services for residents of northwestern Nebraska and surrounding states. The Hospital also operates Prairie Pines, an assisted living retirement center in Chadron, Nebraska, which was purchased on December 1, 1996. In addition, the Hospital operates an outpatient clinic in Crawford, Nebraska.

##### Program Services

The Hospital fulfills its mission by focusing its efforts in the following primary service areas:

Hospital - The Hospital is a Critical Access Hospital with 25 beds for all patient types - acute, observation, intensive care, and OB. Program services include medical and surgical care, obstetrics and newborn care, dialysis, emergency care, rehabilitation services, and a wide range of visiting specialists. They also operate an assisted living facility and independent living apartments called Prairie Pines Lodge in Chadron, Nebraska.

The Hospital also offers a variety of outpatient services through its multi-specialty clinics. Current specialties include cardiology, ENT, general surgery, gynecology, oncology, ophthalmology, physical therapy, orthopedic, speech therapy, urology, and oral surgery. The Hospital also operates a Rural Health Clinic: Legend Buttes Health Services in Crawford, Nebraska.

Western Community Health Resources - WCHR collaborates with communities in the provision of quality health and human services. The following program areas are managed within the organization:

- *Health* - Consists of family reproductive health services, HIV education and testing, Ryan White Part C, Every Woman Matters, diabetes prevention, patient prescription advocacy, and immunization programs.
- *Behavioral Health* - Consists of community support services, supported employment, emergency community support services, youth transition services, and mental health outreach/telehealth programs.
- *Nutrition* - Consists of women, infants, and children grant program (WIC) and commodity supplemental food programs.
- *Family Services* - Consists of respite, car seat safety, early development network, community essentials pantry, and children's outreach programs.
- *Education* - Consists of suicide prevention, community organizing, circle of security, FAST - Families & Schools Together, and Love & Logic programs.
- *Other* - Consists of smaller grants for healthcare services.

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies of the Chadron Community Hospital Corporation (the Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts whose use is limited by Board designation or other arrangements under loan agreements.

Inventories

Inventories include medical supplies and pharmaceuticals. Inventories are valued at average cost using the first-in, first-out method.

Investments

Assets whose use is limited include various investments. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair market value in the accompanying Statements of Financial Position. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over (under) expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over (under) expenses unless the investments are trading securities.

Assets Whose Use Is Limited

Assets whose use is limited primarily includes assets held under indenture agreements and internally designated assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Property and Equipment

Acquisitions of property and equipment over \$5,000 are recorded at cost. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the Statements of Operations. Interest costs incurred on borrowed funds during the construction of major capital projects, net of certain interest income, are capitalized and depreciated as a component of the related assets.

Depreciation is provided over the estimated useful life of the asset and is computed using the straight-line method. Useful lives are determined using guidelines from the American Hospital Association guide for *Estimated Useful Lives of Depreciable Hospital Assets*. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying Statements of Operations. The estimated useful lives of property and equipment are as follows:

	<u>Years</u>
Land Improvements	10 - 20
Leasehold Improvements	15 - 40
Buildings	15 - 40
Fixed Equipment	5 - 20
Major Moveable Equipment	3 - 20

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions and are excluded from the excess of revenues over expenses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. The expiration of these restrictions is recognized in the period when the time stipulated by the donor has elapsed, when the stipulated purpose for which the asset was restricted has been fulfilled, or both. Long-lived assets are released from restriction when placed into service.

Long-lived assets to be held and used, such as property and equipment, are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the excess of the asset's carrying amount over the fair value of the asset. Certain long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell.

Patient Accounts Receivable

Patient accounts receivable are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its 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 Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with uninsured/self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's process for calculating the allowance for doubtful accounts for self-pay patients has not changed from September 30, 2018 to September 30, 2019. The allowance for doubtful accounts for self-pay patients increased from 36% of self-pay accounts receivable at September 30, 2018 to 55% of self-pay accounts receivable at September 30, 2019, while bad debt expense increased by \$22,068 for the year ended September 30, 2019 in comparison to 2018. The increase in the allowance as a percentage of self-pay patient account balances is the result of larger balances of the self-pay accounts being in the greater-than-ninety-days category and an overall increase in self-pay balances as of September 30, 2019 in comparison to September 30, 2018. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the Hospital has been limited by donors to a specific time period or purpose.

Net Patient Service Revenue

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

Functional Classification of Expenses

The Hospital allocates costs and expenses between program and supporting services by using the specific identification method and management's estimate of services benefiting from the expense. Expenses related to more than one functional are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Hospital.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in the Statements of Operations. The Hospital estimated the costs associated with providing the services under its charity care policy were \$341,247 and \$266,148 for the years ended September 30, 2019 and 2018, respectively. The Hospital computes its estimated charity care costs by applying its overall cost to charge ratio (total operating costs divided by gross patient service revenue) to the gross charges forgone under its charity care policy.

Donor-restricted Gifts

Unconditional promises to give cash and other assets to the Hospital 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 support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the Statements of Operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying Statements of Operations.

Operating Income

Operating income includes transactions deemed by management to be ongoing, major, or central to the provision of services provided by the Hospital. Revenues and expenses to provide these services are reported as operating income for the reporting period. Non-operating gains (losses), as well as gifts and grants for the purchase of property and equipment, are excluded from operating income.

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Excess of Revenues Over (Under) Expenses

The Statements of Operations include the excess of revenues over (under) expenses. Changes in net assets without donor restrictions which are excluded from the excess of revenues over (under) expenses, 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 to acquire such assets).

Income Taxes

The Hospital accounts for uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the taxing authorities.

The Hospital is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. The Hospital is not liable for income taxes if it operates within the confines of its exempt status, though the Hospital may be responsible for taxes on unrelated business activities. In the event of an examination of the income tax returns, the tax liability of the Hospital could be changed if taxing authorities make adjustments to the tax-exempt purpose of the Hospital or if taxing authorities determine activities are subject to unrelated business income.

As of September 30, 2019, the Hospital had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Hospital's income tax filings are subject to audit by various taxing authorities. The Hospital is no longer subject to federal and state income tax examinations by taxing authorities for years before 2015. Management continually evaluates expiring statutes of limitation, audits, proposed settlements, changes in tax law, and new authoritative rulings. The Hospital believes their estimates are appropriate based on current facts and circumstances. Interest and penalties assessed by income taxing authorities, if any, are included in interest expense.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts from the accompanying 2018 financial statements have been reclassified to agree with the 2019 presentation for the Hospital's implementation of ASU 2016-14 with no effect on the previously reported net assets.

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Accounting Pronouncement Adopted

In August 2016, the FASB issued (ASU) 2016-14, Not-for-Profit Entities: Topic 958. The amendments in this update affect not-for-profit entities and the users of their general-purpose financial statements. In addition to changes in the terminology used to describe categories of net assets throughout the financial statements, the accounting and reporting of investment return and underwater endowments were modified and new disclosures were added. The Hospital adopted this ASU effective for the year ended September 30, 2019 and retroactively applied the standard to the year ended September 30, 2018.

Recent Accounting Pronouncements

In May 2014, the FASB issued (ASU) 2014-09, Revenue from Contracts with Customers: Topic 606. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective retrospectively for fiscal years beginning after December 15, 2018. The Hospital has not yet implemented this ASU and is in the process of assessing the effect on the Hospital's financial statements.

In February 2016, the FASB issued (ASU) 2016-02, Leases. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019. The Hospital has not yet implemented this ASU and is in the process of assessing the effect on the Hospital's financial statements.

**NOTE 3 - LIQUIDITY AND AVAILABILITY**

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

	2019	2018
Cash and Cash Equivalents	\$ 1,565,795	\$ 2,344,066
Patient Receivables	4,365,430	4,004,768
Estimated Third-party Payor Settlements	699,363	451,118
Reinsurance Receivable	139,285	139,285
Other Receivables	368,441	191,057
	\$ 7,138,314	\$ 7,130,294

As part of the Hospital's liquidity management, is has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Revenues from patient charges are generally sufficient to cover operating expenses.

# Chadron Community Hospital Corporation

## Notes to the Financial Statements

### September 30, 2019 and 2018

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#### **NOTE 4 - NET PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The Hospital is designated as a Critical Access Hospital (CAH) which primarily allows cost-based reimbursement for both Medicare and Medicaid hospital services.

On August 2, 2011, President Obama signed the Budget Control Act of 2011 (BCA) into law. This law tasked a newly appointed committee to devise a budget to decrease the projected federal deficit by a set amount over the period of fiscal years 2012 to 2021. The committee was unable to compromise on a solution by the deadline of December 23, 2011, which under the BCA automatically set off an across-the-board reduction in federal spending, also known as "sequestration". Effective April 1, 2013, the Medicare program implemented sequestration and reduced its payments to all hospitals by 2%. The Hospital has estimated the impact of sequestration will reduce its Medicare reimbursement by approximately \$130,000 on an annual basis. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient, outpatient, and clinical services related to Medicare beneficiaries are paid primarily based on a cost-reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). Although the majority of the services provided are reimbursed under the previously described methodology, there are some services, such as hospice and dialysis, which are reimbursed under a prospectively determined rate. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been settled by the intermediary through September 30, 2017.

Medicaid - Hospital inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost-reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of the annual Medicare cost report by the Hospital and audits thereof by the MAC. The Hospital's Medicaid cost reports have been settled by the intermediaries through September 30, 2017. There are certain services which the Hospital receives reimbursement based on prospectively determined rates such as some clinical and assisted living facility services.

Revenue from the Medicare program accounted for approximately 46% and 49% for the years ended September 30, 2019 and 2018, respectively. Revenue from the Medicaid program accounted for approximately 8% and 6% for the years ended September 30, 2019 and 2018, respectively. 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 actual cost report settlements in the near future will be different from recorded estimates.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes discounts from established charges.

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

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**NOTE 4 - NET PATIENT SERVICE REVENUE (CONTINUED)**

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

	<u>2019</u>	<u>2018</u>
Net Patient Service Revenue:		
Gross Patient Service Revenue:		
Medicare	\$ 14,345,562	\$ 14,450,700
Medicaid	2,575,948	1,755,798
Commercial Insurance and Other	14,576,764	13,843,712
Charity Care Deductions	<u>(455,208)</u>	<u>(335,990)</u>
Gross Patient Service Revenue (After Charity Care)	<u>31,043,066</u>	<u>29,714,220</u>
Contractual Adjustments:		
Medicare	(4,069,137)	(3,533,419)
Medicaid	(783,914)	(612,742)
Commercial Insurance and Other	<u>(2,567,413)</u>	<u>(2,085,395)</u>
Total Contractual Adjustments	<u>(7,420,464)</u>	<u>(6,231,556)</u>
Net Patient Service Revenue	23,622,602	23,482,664
Provision for Uncollectible Amounts	<u>(929,279)</u>	<u>(907,211)</u>
Net Patient Service Revenue, Less Provisions for Uncollectible Amounts	<u>\$ 22,693,323</u>	<u>\$ 22,575,453</u>

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

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**NOTE 5 - ASSETS WHOSE USE IS LIMITED**

The composition of assets whose use is limited is set forth in the following schedule. Money markets, mutual funds, and securities are stated at fair market value. Certificates of deposit are stated at cost plus accrued interest at September 30.

	2019	2018
By Board for Capital Improvements:		
Cash	\$ 229,869	\$ 229,866
Money Market	464,718	910,943
Certificates of Deposit	1,507	1,488
Securities	5	5
Total Capital Improvements	696,099	1,142,302
By Board for Funded Depreciation:		
Money Market	154,576	153,346
Certificates of Deposit	123,716	123,118
Total Funded Depreciation	278,292	276,464
Resident Deposits:		
Cash	83,431	85,262
Under Loan Agreements:		
Money Market	343,056	288,321
Certificates of Deposit	88,204	87,249
Total Under Loan Agreements	431,260	375,570
Total Assets Whose Use is Limited	\$ 1,489,082	\$ 1,879,598

**NOTE 6 - FAIR VALUE OF ASSETS**

The Hospital accounts for the fair value of investments (see Note 5) using the provisions of Financial Accounting Standards Board (FASB) ASC 820, *Fair Value Measurements*. ASC 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted price in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially all of the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

**NOTE 6 - FAIR VALUE OF ASSETS (CONTINUED)**

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the categorization is based on the lowest level input that is significant to the fair value measurement of the investment.

Following is a description of the valuation methodologies used for assets measured at fair value.

Money Markets and Securities - Valued at fair value based on quoted prices in active markets of shares held by the Hospital at year-end.

The following table sets forth carrying amounts and estimated fair values for financial instruments as of September 30, 2019:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market	\$ 962,350	\$ 962,350	\$ -	\$ -
Securities	5	5	-	-
Total Investments	<u>\$ 962,355</u>	<u>\$ 962,355</u>	<u>\$ -</u>	<u>\$ -</u>

The following table sets forth carrying amounts and estimated fair values for financial instruments as of September 30, 2018:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market	\$ 1,352,610	\$ 1,352,610	\$ -	\$ -
Securities	5	5	-	-
Total Investments	<u>\$ 1,352,615</u>	<u>\$ 1,352,615</u>	<u>\$ -</u>	<u>\$ -</u>

Investment income at September 30 is as follows:

	2019	2018
Interest Income	<u>\$ 14,063</u>	<u>\$ 5,653</u>

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

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**NOTE 7 - PROPERTY AND EQUIPMENT**

A summary of property and equipment at September 30 is as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 192,452	\$ 192,452
Buildings and Improvements	31,722,046	31,698,778
Equipment and Furnishings	<u>8,333,416</u>	<u>7,060,475</u>
Total Property and Equipment	40,247,914	38,951,705
Less: Accumulated Depreciation	<u>24,863,280</u>	<u>22,913,867</u>
Net Property and Equipment	15,384,634	16,037,838
Construction in Progress	<u>475,613</u>	<u>465,048</u>
Property and Equipment, Net	<u>\$ 15,860,247</u>	<u>\$ 16,502,886</u>

Construction in progress at September 30, 2019 and 2018 represents design costs for a potential remodel of the assisted living facility, a garage for ambulance services, and design costs for repurposing the old hospital building. As of September 30, 2019, all of the construction in progress projects had been placed on hold.

Depreciation and amortization expense are included in the accompanying financial statements as of September 30 as follows:

	<u>2019</u>	<u>2018</u>
Depreciation	\$ 1,949,416	\$ 1,864,924
Amortization	<u>-</u>	<u>780</u>
Total	<u>\$ 1,949,416</u>	<u>\$ 1,865,704</u>

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

**NOTE 8 - LONG-TERM DEBT**

Long-term debt as of September 30 consisted of the following:

	2019	2018
Note payable to USDA in the amount of \$8,900,000 with an interest rate of 4.125%, payable in monthly installments of \$37,202 over 40 years to July 2050.	\$ 7,868,157	\$ 7,999,572
Note payable to First National Bank of Omaha, original loan amount of \$7,158,216 with an interest rate of 5.0%, payable in monthly installments of \$69,576 over 11 years to July	5,904,558	6,425,719
Promissory note from Bank of the West, original loan amount of \$3,886,156 at 6.0%, payable in monthly installments of \$33,000, including principal and interest, to September 2019. This note was paid in full during the year ended September 30, 2019.	-	419,693
Note payable, original loan amount of \$19,224 at 4.89%, payable in monthly installments of \$363, including principal and interest, to January 2023. Secured by a vehicle. This note was paid in full during the year ended September 30, 2019.	-	16,881
	13,772,715	14,861,865
Less: Current Maturities	(680,144)	(1,072,008)
Total Long-term Debt	\$ 13,092,571	\$ 13,789,857

Substantially all of the Hospital's assets are pledged as collateral for the Rural Development and First National Bank of Omaha loans described above. Substantially all of the assets of the Prairie Pines Retirement Center, including the building and equipment, are pledged as collateral for the promissory note payable to Bank of the West.

Under terms of the loan agreements with the U.S. Department of Agriculture, the Hospital is required to maintain a reserve account (Note 5). The funds in this account are to be used for repairing or replacing any damage to the Hospital building due to catastrophe, for making extensions or improvements to the Hospital with the consent of the U.S. Department of Agriculture or, if necessary, for making debt service payments. The Hospital was not in compliance with the reserve requirement at September 30, 2018. During the year ended September 30, 2019, the Hospital made the required deposits to true up the amount required to meet the minimum reserve balance required. The Hospital was in compliance with the reserve requirement at September 30, 2019.

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

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**NOTE 8 - LONG-TERM DEBT (CONTINUED)**

Long-term debt maturities are as follows:

Year Ending September 30,	
2020	\$ 680,144
2021	714,768
2022	750,318
2023	787,651
2024	826,390
Thereafter	10,013,444
	<u>\$ 13,772,715</u>

**NOTE 9 - CAPITAL LEASE OBLIGATION**

During the year ended September 30, 2017, the Hospital entered into a capital lease for an MRI machine. The lease is payable in monthly installments of \$14,049 through May 2022. During the year ended September 30, 2018, the Hospital entered into a capital lease for a phone system. The lease is payable in monthly installments of \$3,403 through March 2020. During the year ended September 30, 2019, the Hospital entered into a capital lease for medical equipment. The lease is payable in monthly installments of \$3,639 through May 2021.

As of September 30, 2019 and 2018, the capitalized costs of the related equipment were \$1,141,511 and \$1,010,162, respectively, with accumulated depreciation of \$319,012 and \$192,253, respectively.

Future minimum payments related to the capital lease is as follows:

Year Ending September 30,	Principal	Interest	Total
2020	\$ 227,732	\$ 17,224	\$ 244,956
2021	202,610	9,647	212,257
2022	136,175	2,035	138,210
	<u>\$ 566,517</u>	<u>\$ 28,906</u>	<u>\$ 595,423</u>

**NOTE 10 - NONCANCELABLE OPERATING LEASES**

Total lease expense was \$263,424 and \$369,344, respectively, for medical and office equipment for the years ended September 30, 2019 and 2018. Future minimum rentals under the Hospital's operating leases for the twelve months ended September 30 are as follows:

2020	\$ 228,496
2021	213,121
2022	191,369
2023	124,482
2024	7,070

The Hospital leases office space in the attached clinic to physicians unrelated to the Hospital. The capitalized clinic space is included in Buildings and Improvements in Note 7. Expected future revenues related to these leases are \$158,760 for each of the years ended September 30, 2020, 2021, 2022, 2023, and 2024.

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

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**NOTE 11 - PENSION PLAN**

The Hospital participates in a defined contribution retirement plan. Substantially all full-time employees are eligible to participate in this plan. The Hospital's cost is determined by a specific percentage of each participating employee's salary, reduced by credits arising from contributions made by the Hospital for employees who had been terminated and were not 100% vested. Total pension expense for the years ended September 30, 2019 and 2018 was \$153,069 and \$188,329, respectively.

**NOTE 12 - NET ASSETS WITH DONOR RESTRICTIONS**

Net asset with donor restriction balances as of September 30, 2019 are as follows:

	2019	2018
New Hospital	\$ 128,764	\$ 128,764
Dialysis	62,538	62,538
Circle of Light - Cancer Support	61,314	72,234
Other	12,495	7,410
	\$ 265,111	\$ 270,946

**NOTE 13 - CONCENTRATIONS OF CREDIT RISK**

The Hospital is located in Chadron, Nebraska. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The percentage breakdown of receivables from patients and third-party payors at September 30 was as follows:

	2019	2018
Medicare	43%	52%
Medicaid	10%	6%
Other Third-party Payors	27%	27%
Patients - Private Pay	20%	15%
	100%	100%

The Hospital maintains its cash deposits in bank accounts and certificates of deposit, which, at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes it is not exposed to any significant credit risk on cash and cash equivalents.

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

Management Agreement

The Hospital has entered into an agreement with Regional West Health Services (RWHS), a Nebraska non-profit corporation, in which RWHS provides management services to the Hospital. The agreement provides for a hospital administrator and any other support services that are provided by RWHS. Total management fees paid for the years ended September 30, 2019 and 2018 were \$443,674 and \$457,415, respectively.

Professional Liability Insurance

The Hospital purchases professional and general liability insurance to cover medical malpractice claims. The policy provides protection for liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. There were no known claims or incidents arising from services provided to patients as of September 30, 2019.

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

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**NOTE 14 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

Litigation, Claims, and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes not specifically referenced within these financial statements that may have been in process through the date of the independent auditor's report will not be material to the financial position of the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes that the Hospital is in substantial compliance with current laws and regulations.

Stark Violation

During the year ended September 30, 2019, the Hospital voluntarily self-disclosed a violation to CMS under the Stark Self-Referral Disclosure Protocol (SRDP). The self-disclosure relates to a financial relationship between the Hospital and a medical practice providing services in a satellite clinic in Hay Springs, Nebraska. The practice used the services of Hospital employees and space leased by the Hospital without a written agreement or sublease and without payment. The arrangement had the potential to require the Hospital to refund amounts collected from Medicare for referrals of designated health services made to the Hospital by the owners of the practice for the past 6 years (July 24, 2012 to July 24, 2018). While there is no guarantee of settlement, the SRDP vests CMS with discretion to resolve self-disclosed matters for less than the full potential refund amount. Historically, settlements have been for less than the maximum potential refund amount. As of the date of the independent auditor's report, it was not possible to estimate the amount of the settlement that CMS will offer and whether that amount will be material.

Subsequent to the year ended September 30, 2019 and in a good faith effort, the Hospital began refunding the estimated amounts to Medicare patients who were referred during that time period and who made a self-pay payment. The amounts refunded as of the date of the independent auditor's report totaled roughly \$245,000 and are recorded in the Statement of Financial Position as an estimated third-party payor liability.

**NOTE 15 - FUNCTIONAL EXPENSES**

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The following cost centers have expenses that are allocated; plant, housekeeping, information technology, WCHR building, personnel, Prairie Pines Lodge, and administrator. These allocation percentages were determined by management based on historical analysis of program versus management functions. Other expenses are not allocated as they are directly identified to that program or supporting function.

**Chadron Community Hospital Corporation**  
**Notes to the Financial Statements**  
**September 30, 2019 and 2018**

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**NOTE 16 - SELF-FUNDED INSURANCE**

The Hospital maintains a self-funded Health Care Plan for the benefit of eligible employees and their dependents. All full-time employees working at least 30 hours per week are eligible for the plan. No benefits are provided for retired employees or their dependents. Total expenses for the employee group health plan for the years ended September 30, 2019 and 2018, were \$1,115,893 and \$1,498,681, respectively.

The Hospital estimates the liabilities for claims based on claims paid out subsequent to year-end and estimated outstanding claims based on historical data of the plan. The estimated liability is included in accrued salaries, vacation, and benefits payable on the Statements of Financial Position as of September 30, 2019 and 2018. Changes in the claims liability for the years ended September 30, 2019 and 2018 were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-end
2016 - 2017	\$ 223,465	\$ 1,477,933	\$ 1,477,933	\$ 223,465
2017 - 2018	223,465	2,583,204	2,526,267	280,402
2018 - 2019	280,402	1,524,454	1,449,638	355,218

The Hospital purchased a reinsurance policy to cover health expenditures over a certain limit incurred by participants in the self-funded health insurance plan. For the years ending September 30, 2019 and 2018, the reinsurance limits were \$55,000 and \$50,000, respectively, per covered individual or family during a plan year. The Hospital had recorded a receivable for incurred but not received reinsurance claims in the amount of \$139,285 as of September 30, 2019 and 2018.

**NOTE 17 - RELATED-PARTY NOTES RECEIVABLE**

The Hospital sold Lot 1, Block 1, West Hills Seventh Addition to E&T Developers, a Nebraska corporation, whose sole shareholders were members of the Hospital board at the time of the transaction. The total sale price of the property was \$65,000. The Hospital is carrying a note receivable due from the shareholders with a 4.95% annual rate. Payments are due as each duplex unit is constructed and sold. At the time of a sale of a unit 1/5 of the purchase price per unit or the sum of \$13,000 is due to the Hospital together with interest accrued on that portion of the unpaid purchase price. The land and any improvements collateralize the loan. The note receivable balance was \$52,000 as of September 30, 2019 and 2018. During the year ended September 30, 2018, the remaining Hospital Board member involved in this transaction had resigned from his Board position. During the year ended September 30, 2019, another member of the entity involved in the transaction was elected to the Hospital Board.

**NOTE 18 - SUBSEQUENT EVENTS**

The Hospital's ongoing profitability may experience instability and estimates included in the financial statements may change due to current political and economic conditions as a result of public health concerns related to the novel coronavirus, or COVID-19. The duration and intensity of these impacts and resulting disruption to which these events affect the Hospital's business will depend on future developments, which are highly uncertain and cannot be predicted at this time.

Subsequent events have been evaluated through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**Chadron Community Hospital Corporation**  
**Schedule of Program Expenses for Western Community Health Resources**  
**(A Department of Chadron Community Hospital Corporation)**  
**For the Year Ended September 30, 2019**

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	<u>Health Programs</u>	<u>Behavioral Health Programs</u>	<u>Nutrition Programs</u>
Salaries and Benefits	\$ 354,237	\$ 351,292	\$ 141,461
Program Costs	295,306	28,518	-
Indirect Costs	39,725	41,033	17,455
Supplies	36,054	20,273	3,076
Purchased Services	9,113	19,081	767
Travel and Mileage	7,161	16,108	4,497
Marketing and Advertising	15,966	1,855	604
Depreciation Expense	-	-	-
Rent	3,275	4,324	7,660
Printing	3,864	4,828	933
Communications	4,421	5,547	2,050
Training and Development	2,947	971	2,114
Repairs and Maintenance	3,335	1,375	335
Lodging and Meals	3,989	1,062	1,019
Postage	785	340	164
	<u>\$ 780,178</u>	<u>\$ 496,607</u>	<u>\$ 182,135</u>

See independent auditor's report.

Family Services Programs	Education Programs	Other Programs	Total
\$ 120,131	\$ 39,044	\$ -	\$ 1,006,165
16,037	2,545	32,385	374,791
163	1,738	277	100,391
7,015	8,203	890	75,511
8,182	32,716	-	69,859
8,701	3,155	-	39,622
8,034	2,072	-	28,531
-	-	21,137	21,137
615	194	-	16,068
4,387	1,502	-	15,514
2,637	306	-	14,961
959	4,263	-	11,254
5,795	39	-	10,879
1,251	2,522	-	9,843
455	89	-	1,833
<u>\$ 184,362</u>	<u>\$ 98,388</u>	<u>\$ 54,689</u>	<u>\$ 1,796,359</u>

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