

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Medicine Lodge Memorial Hospital
Medicine Lodge, Kansas

We have audited the accompanying financial statements of Medicine Lodge Memorial Hospital, a component unit of the Medicine Lodge Township, Kansas, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Medicine Lodge Memorial Hospital's basic financial statements as listed in the table of contents.

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 and the provisions of the Kansas Municipal Audit and Accounting Guide. 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 Medicine Lodge Memorial Hospital as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Wichita, Kansas
October 1, 2020

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Balance Sheets
December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	\$ 408,904	\$ 1,236,538
Patient accounts receivable, net of allowance; 2019 - \$258,038, 2018 - \$184,966	1,072,520	1,795,547
Property and sales tax receivable	49,060	49,446
Estimated amounts due from third-party payers	662,908	-
Supplies	182,833	202,882
Prepaid expenses and other	70,681	69,522
Other receivables	24,072	29,122
Total current assets	2,470,978	3,383,057
 Noncurrent Cash and Investments		
Designated by Board of Trustees	403,268	387,189
Restricted by donors for capital acquisitions and specific operating activities	100	100
Ranch land and mineral interests, at cost	89,078	89,078
	492,446	476,367
 Capital Assets, Net	 7,595,680	 8,315,954
Total assets	\$ 10,559,104	\$ 12,175,378

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of long-term debt	\$ 181,661	\$ 199,903
Accounts payable	225,114	200,706
Accrued expenses	536,544	483,327
Accrued bond interest	40,215	41,747
Estimated amounts due to third-party payers	-	994,283
	<u>983,534</u>	<u>1,919,966</u>
Long-term Debt	<u>3,933,307</u>	<u>4,135,630</u>
Total liabilities	<u>4,916,841</u>	<u>6,055,596</u>
Net Position		
Net investment in capital assets	3,480,712	3,980,421
Restricted - expendable for		
Specific operating activities	100	100
Unrestricted	<u>2,161,451</u>	<u>2,139,261</u>
Total net position	<u>5,642,263</u>	<u>6,119,782</u>
Total liabilities and net position	<u>\$ 10,559,104</u>	<u>\$ 12,175,378</u>

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 - \$267,188, 2018 - \$22,768	\$ 8,655,267	\$ 8,272,356
340B Drug Program	767,982	783,531
Other	202,714	228,479
Total operating revenues	9,625,963	9,284,366
Operating Expenses		
Salaries and wages	4,887,727	4,728,053
Employee benefits	1,065,441	1,036,220
Purchased services and professional fees	1,574,806	1,298,394
Supplies and other	2,387,690	2,126,693
Depreciation	800,275	833,046
Total operating expenses	10,715,939	10,022,406
Operating Loss	(1,089,976)	(738,040)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - County and City	652,317	670,335
Investment income	18,503	26,553
Gain on disposal of capital assets	3,677	-
Interest expense	(142,021)	(149,805)
Noncapital grants and gifts	36,031	21,332
Ranch income, net of expense	43,950	16,417
Total nonoperating revenues	612,457	584,832
Decrease in Net Position	(477,519)	(153,208)
Net Position, Beginning of Year	6,119,782	6,272,990
Net Position, End of Year	\$ 5,642,263	\$ 6,119,782

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	\$ 7,721,103	\$ 8,764,906
Payments to suppliers and contractors	(4,984,639)	(4,526,595)
Payments to employees	(4,836,042)	(4,750,425)
Other receipts, net	975,746	1,026,666
Net cash provided by (used in) operating activities	(1,123,832)	514,552
Cash Flows from Noncapital Financing Activities		
Noncapital appropriations supporting operations	652,703	668,359
Noncapital grants and gifts	36,031	21,332
Net cash provided by noncapital financing activities	688,734	689,691
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	(220,565)	(183,710)
Interest payments on long-term debt	(142,021)	(149,805)
Purchases of capital assets	(112,324)	(68,242)
Proceeds from disposition of capital assets	36,000	-
Net cash used in capital and related financing activities	(438,910)	(401,757)
Cash Flows from Investing Activities		
Ranch operations	43,950	16,417
Investment income	18,503	26,553
Net cash provided by investing activities	62,453	42,970
Increase (Decrease) in Cash	(811,555)	845,456
Cash, Beginning of Year	1,623,827	778,371
Cash, End of Year	\$ 812,272	\$ 1,623,827
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 408,904	\$ 1,236,538
Noncurrent cash designated by Board of Trustees	403,268	387,189
Noncurrent cash restricted by donors	100	100
Total cash	\$ 812,272	\$ 1,623,827

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,089,976)	\$ (738,040)
Depreciation	800,275	833,046
Provision for uncollectible accounts	267,188	22,768
Changes in operating assets and liabilities		
Patient accounts receivable, net	455,839	(486,597)
Estimated amounts due from and to third-party payers	(1,657,191)	956,379
Other receivables	5,050	14,656
Supplies	20,049	(42,911)
Prepaid expenses and other	(1,159)	20,786
Accounts payable and accrued expenses	76,093	(65,535)
Net cash provided by (used in) operating activities	\$ (1,123,832)	\$ 514,552
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ -	\$ 96,524

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Notes to Financial Statements
December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Medicine Lodge Memorial Hospital (Hospital) is owned by Medicine Lodge Township (Township) and governed by a Board of Trustees who are appointed by the Medicine Lodge City Council and the Board of Medicine Lodge Township and is a component unit of the Township. The Hospital provides short-term acute care services and outpatient services and operates a medical clinic.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as noncapital appropriations from the county and city, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, there were no cash equivalents.

Medicine Lodge Memorial Hospital
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Noncapital Appropriations – County and City

The Hospital received approximately 6% and 7% of its financial support from noncapital appropriations derived from property and sales taxes in 2019 and 2018, respectively. One hundred percent of these funds were used to support operations of the Hospital in both years.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations from the county derived from property taxes is recognized in the year for which the taxes are levied.

Appropriations derived from sales tax revenue are recognized based on sales tax collected by the Township's retailers in the Hospital's accounting period.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for the services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or net realizable value.

Medicine Lodge Memorial Hospital
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Noncurrent Cash and Investments

As of December 31, 2019 and 2018, noncurrent cash and investments included assets held by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion use for other purposes. Noncurrent cash and investments also include assets restricted by donors and grantors.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	20 years
Buildings	10-50 years
Fixed equipment	10-20 years
Moveable equipment	5-20 years

Capital Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Compensated Absences

Hospital policies permit most employees to accumulate vacation leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Medicine Lodge Memorial Hospital
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December 31, 2019 and 2018

Net Position

Net position of the Hospital is classified in three components on its balance sheets.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted expendable.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Patient service revenue is recorded at established rates with contractual adjustments, charity care and other adjustments deducted to arrive at net patient service revenue before the provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Medicine Lodge Memorial Hospital
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Notes to Financial Statements
December 31, 2019 and 2018

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital is licensed as a CAH, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare Administrative Contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future.

Approximately 77% and 73% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for both the years ending December 31, 2019 and 2018, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2019 and 2018, none of the Hospital's bank balances of \$841,044 and \$1,653,232, respectively, were exposed to custodial credit risk.

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Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets as follows:

	2019	2018
Carrying value		
Deposits	\$ 811,472	\$ 1,623,027
Petty cash	800	800
	\$ 812,272	\$ 1,623,827
Included in the following balance sheet captions		
Cash in current assets	\$ 408,904	\$ 1,236,538
Designated by Board of Trustees	403,268	387,189
Restricted by donors	100	100
	\$ 812,272	\$ 1,623,827

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	2019	2018
Medicare	\$ 509,768	\$ 1,246,414
Medicaid	79,390	25,871
Blue Cross	124,806	95,316
Other third-party payers	154,500	190,391
Self-pay	462,094	422,521
	1,330,558	1,980,513
Less allowance for uncollectible accounts	(258,038)	(184,966)
	\$ 1,072,520	\$ 1,795,547

Medicine Lodge Memorial Hospital
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Notes to Financial Statements
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Note 6: Accounts Payable and Accrued Expenses

Accounts payable and expenses included in current liabilities at December 31 consisted of:

	2019	2018
Payable to suppliers and contractors	\$ 225,114	\$ 200,706
Payable to employees (including payroll taxes and benefits)	536,544	483,327
	\$ 761,658	\$ 684,033

Note 7: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Medicine Lodge Memorial Hospital
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Notes to Financial Statements
December 31, 2019 and 2018

Note 8: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31:

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Public Building Commission bonds payable - 2011	\$ 182,750	\$ -	\$ 20,250	\$ 162,500	\$ 20,500
USDA Hospital Refunding Revenue Bond Series 2014	4,005,804	-	134,146	3,871,658	138,674
Capital lease obligations	146,979	-	66,169	80,810	22,487
	<u>\$4,335,533</u>	<u>\$ -</u>	<u>\$ 220,565</u>	<u>\$4,114,968</u>	<u>\$ 181,661</u>
	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Public Building Commission bonds payable - 2011	\$ 202,250	\$ -	\$ 19,500	\$ 182,750	\$ 20,250
USDA Hospital Refunding Revenue Bond Series 2014	4,135,571	-	129,767	4,005,804	134,146
Capital lease obligations	84,898	96,524	34,443	146,979	45,507
	<u>\$4,422,719</u>	<u>\$ 96,524</u>	<u>\$ 183,710</u>	<u>\$4,335,533</u>	<u>\$ 199,903</u>

Public Building Commission Bonds Payable – 2011

The Public Building Commission bonds payable consist of Barber County, Kansas Public Building Commission Revenue Bonds Series 2011 in the original amount of \$6,000,000 dated July 20, 2011, which bear interest at 3.0% to 4.0%. The bonds are payable in annual installments beginning September 1, 2012 through September 1, 2026. Semiannual interest only payments are due beginning March 1, 2012 through March 1, 2026. In connection with the issuance of the bonds, the Hospital has entered into a sublease with the County. Under the sublease, the Hospital is responsible for 5% of the total debt service on the bonds. The bonds are secured by a pledge of the gross revenues of the Hospital.

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The Hospital's debt service requirements as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be		
	Paid	Principal	Interest
2020	\$ 26,810	\$ 20,500	\$ 6,310
2021	26,990	21,500	5,490
2022	26,986	22,250	4,736
2023	27,180	23,250	3,930
2024	27,000	24,000	3,000
2025 - 2026	54,080	51,000	3,080
	<u>\$ 189,046</u>	<u>\$ 162,500</u>	<u>\$ 26,546</u>

USDA Hospital Refunding Revenue Bond Series 2014

The USDA Hospital Refunding Revenue Bond Series 2014 bond payable was issued September 15, 2014, in the amount of \$4,500,000 and bears interest at 3.375%. Principal and interest payments began September 15, 2015, and extend through September 15, 2039.

The Hospital's debt service requirements for the USDA bond as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be		
	Paid	Principal	Interest
2020	\$ 269,342	\$ 138,674	\$ 130,668
2021	269,342	143,354	125,988
2022	269,342	148,192	121,150
2023	269,342	153,193	116,149
2024	269,342	158,364	110,978
2025-2029	1,346,711	875,691	471,020
2030-2034	1,346,711	1,033,781	312,930
2035-2039	1,346,707	1,220,409	126,298
	<u>\$ 5,386,839</u>	<u>\$ 3,871,658</u>	<u>\$ 1,515,181</u>

Medicine Lodge Memorial Hospital
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Notes to Financial Statements
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Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. A schedule of the equipment cost and accumulated depreciation under capital leases follows:

	2019	2018
Equipment	\$ 126,025	\$ 255,315
Accumulated depreciation	(47,978)	(107,606)
	\$ 78,047	\$ 147,709

The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates from 3.75% to 6.00%, together with the present value of the future minimum lease payments as of December 31:

2020	\$ 25,925
2021	25,925
2022	21,629
2023	14,420
Total minimum lease payments	87,899
Less amounts representing interest	7,089
Present value of future minimum lease payments	\$ 80,810

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Notes to Financial Statements
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Note 9: Pension Plan

The Hospital maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by all employees who have completed one year of service and are at least 21 years of age and have been paid for 1,000 hours of service for the year. Employer contributions are computed at the rate of 4.5% of annual compensation for eligible employees. The employer also makes supplemental contributions up to an additional 3% of the annual compensation of eligible employees based upon the number of years of continuous service. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Hospital aggregated \$143,994 and \$230,433 during 2019 and \$136,335 and \$220,839 during 2018, respectively. Benefits start vesting immediately with 100% vesting after six years of service. In case of death or disability, all funds contributed by the Hospital are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Employee contributions to the plan are computed at the rate of 3.5% of the annual compensation of the eligible employees. Contributions made by plan members totaled \$85,624 and \$80,665 during 2019 and 2018, respectively. The plan year begins on January 1 and ends December 31.

Note 10: Management Agreement

The Board of Trustees of the Hospital has a management agreement with Great Plains Health Alliance, Inc. (GPHA), whereby GPHA agreed to administer operations of the Hospital. The terms of the agreements vary from one to seven years and can be cancelled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2019 and 2018, were \$797,342 and \$836,565, respectively. Amounts due to GPHA at December 31, 2019 and December 31, 2018, were \$74,798 and \$0, respectively.

Medicine Lodge Memorial Hospital
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Notes to Financial Statements
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Note 11: 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$767,982 and \$783,531 for the years ending December 31, 2019 and 2018, respectively. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 12: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Hospital. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On April 10, 2020, the Hospital received approximately \$319,000 of stimulus funds from the Department of Health and Human Services (HHS). Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain the stimulus payments.

On April 16, 2020, Kansas Governor Laura Kelly announced a special emergency grant funding program for Kansas hospitals. This emergency funding was requested by the Kansas Hospital Association (KHA) on behalf of the hospitals and was distributed to help offset current financial strains caused by the COVID-19 pandemic. To facilitate the timely release of funds, hospitals were not required to complete an application. There are no specific requirements tied to utilization of the funds. The intent is for the grant payments to serve as a bridge to aid hospitals in meeting their basic operational expenditures. The Hospital received \$100,000 on April 24, 2020, related to this special emergency grant.

On April 29, 2020, the Hospital obtained a loan through a local bank that is fully guaranteed by the U.S. Small Business Administration (SBA) through the Paycheck Protection Program (PPP). The amount borrowed is \$1,097,400 at 1.00% interest with a 2-year maturity. With the passing of the *Paycheck Protection Program Flexibility Act of 2020*, PPP loans entered into before June 5, 2020 could be modified to reflect a 5-year maturity by agreement with the lender and borrow. Under the PPP, if certain conditions are met, up to 100% of the principal amount may be forgiven. Management believes all, or nearly all, of the amount borrowed will meet the conditions for loan forgiveness.

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On May 6, 2020, the Hospital received approximately \$3,305,000 of additional stimulus funds from HHS. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain a portion, if not all, of the stimulus payments.

On May 20, 2020, the Hospital received approximately \$49,000 of additional stimulus funds from HHS. Congress has directed this funding to address the expenses Rural Health Clinics (RHCs) are incurring for COVID-19 testing. Certain conditions are required to be met to retain these funds. If the conditions are met, the funds will be retained by the Hospital with no repayment obligations. Management has attested to the requirements and believes the Hospital will retain a portion, if not all, of the stimulus payments.

Note 13: Future Change in Accounting Principle

Fiduciary Activities

GASB Statement No. 84 (GASB 84), *Fiduciary Activities* establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries.

In response to the challenges arising from COVID-19, on May 7, 2020, GASB approved Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. All statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later will have a one-year postponement. This change is effective immediately. GASB 84 is effective for financial statements for fiscal years beginning after December 15, 2019. Earlier application is permitted. The Hospital is evaluating the impact the statement will have on the financial statements.

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Leases

Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87) provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

In response to the challenges arising from COVID-19, on May 7, 2020, GASB approved Statement 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. While the proposal included an extra year to implement all guidance, GASB, in a unanimous vote, approved an 18-month postponement for GASB 87. All statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later will have a one-year postponement. This change is effective immediately. GASB 87 is effective for financial statements for fiscal years beginning after June 15, 2021. Earlier application is permitted. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun. The Hospital is evaluating the impact the statement will have on the financial statements.