

Grisell Memorial Hospital District No. 1

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Grisell Memorial Hospital District No. 1
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Grisell Memorial Hospital District No. 1
Ransom, Kansas

We have audited the accompanying financial statements of Grisell Memorial Hospital District No. 1 as of December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Grisell Memorial Hospital District No. 1'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 Grisell Memorial Hospital District No. 1 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.

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
August 28, 2020

Grisell Memorial Hospital District No. 1
Balance Sheets
December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	\$ 13,942	\$ 847,004
Certificates of deposit	514,600	723,500
Patient accounts receivable, net of allowance; 2019 – \$254,207; 2018 – \$209,950	766,008	753,015
Estimated amounts due from third-party payers	195,000	-
Supplies	72,012	72,450
Prepaid expenses and other	13,738	32,622
Property taxes receivable	1,184,743	1,154,913
Total current assets	2,760,043	3,583,504
Noncurrent Cash and Certificates of Deposit	175,893	704,638
Capital Assets, Net	1,235,442	1,483,086
Total assets	\$ 4,171,378	\$ 5,771,228

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2019</u>	<u>2018</u>
Current Liabilities		
Current maturities of capital lease obligations	\$ 59,050	\$ 126,139
Accounts payable	169,996	156,612
Accrued salaries	174,708	172,392
Accrued payroll taxes	73,534	64,610
Accrued benefits	204,034	246,277
Estimated amounts due to third-party payers	-	690,000
	<hr/>	<hr/>
Total current liabilities	681,322	1,456,030
Capital Lease Obligations	<u>343,462</u>	<u>406,672</u>
Total liabilities	<u>1,024,784</u>	<u>1,862,702</u>
Deferred Inflows of Resources		
Property taxes	<u>1,184,743</u>	<u>1,154,913</u>
Net Position		
Net investment in capital assets	832,930	950,275
Restricted - expendable for		
Specific operating activities	24,330	24,245
Unrestricted	<u>1,104,591</u>	<u>1,779,093</u>
Total net position	<u>1,961,851</u>	<u>2,753,613</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,171,378</u>	<u>\$ 5,771,228</u>

Grisell Memorial Hospital District No. 1
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 – \$14,214; 2018 – \$110,738	\$ 4,498,037	\$ 4,498,463
Other	252,211	161,567
Total operating revenues	4,750,248	4,660,030
Operating Expenses		
Salaries and wages	3,005,144	2,855,411
Employee benefits	858,671	853,984
Supplies and other	2,698,838	2,622,016
Depreciation	278,976	225,051
Total operating expenses	6,841,629	6,556,462
Operating Loss	(2,091,381)	(1,896,432)
Nonoperating Revenues (Expenses)		
Property taxes	1,204,104	1,203,269
Interest income	34,891	30,320
Noncapital grants and gifts	92,715	94,747
Interest expense	(32,091)	(13,315)
Gain on disposal of capital assets	-	50
Total nonoperating revenues	1,299,619	1,315,071
Decrease in Net Position	(791,762)	(581,361)
Net Position, Beginning of Year	2,753,613	3,334,974
Net Position, End of Year	\$ 1,961,851	\$ 2,753,613

Grisell Memorial Hospital District No. 1
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	\$ 3,600,044	\$ 5,259,884
Payments to suppliers and contractors	(3,515,879)	(3,462,176)
Payments to employees	(3,045,071)	(2,858,683)
Other receipts, net	252,211	161,567
Net cash used in operating activities	(2,708,695)	(899,408)
Noncapital Financing Activities		
Property taxes supporting operations	1,204,104	1,203,269
Noncapital grants and gifts	92,715	94,747
Net cash provided by noncapital financing activities	1,296,819	1,298,016
Capital and Related Financing Activities		
Principal paid on capital lease obligations	(130,299)	(104,963)
Interest paid on capital lease obligations	(32,091)	(13,315)
Proceeds from disposal of capital assets	-	50
Purchase of capital assets	(31,332)	(22,769)
Net cash used in capital and related financing activities	(193,722)	(140,997)
Investing Activities		
Interest income received	34,891	30,320
Proceeds from disposition of certificates of deposit	746,671	-
Change in certificates of deposit	(8,826)	(24,016)
Net cash provided by investing activities	772,736	6,304
Increase (Decrease) in Cash	(832,862)	263,915
Cash, Beginning of Year	862,232	598,317
Cash, End of Year	\$ 29,370	\$ 862,232
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 13,942	\$ 847,004
Cash in noncurrent cash	15,428	15,228
	\$ 29,370	\$ 862,232

Grisell Memorial Hospital District No. 1
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (2,091,381)	\$ (1,896,432)
Depreciation	278,976	225,051
Provision for uncollectible accounts	14,214	110,738
Changes in operating assets and liabilities		
Patient accounts receivable, net	(27,207)	(403,158)
Estimated amounts due from and to third-party payers	(885,000)	1,053,841
Supplies	438	4,255
Prepaid expenses and other current assets	18,884	(3,263)
Accounts payable and accrued expenses	(17,619)	9,560
	<u>\$ (2,708,695)</u>	<u>\$ (899,408)</u>
Net cash used in operating activities		
	<u>\$ (2,708,695)</u>	<u>\$ (899,408)</u>
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	\$ -	\$ 472,570

Grisell Memorial Hospital District No. 1

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

Grisell Memorial Hospital District No. 1 (Hospital), located in Ransom, Kansas, is organized and operating under Kansas law and is governed by a Board of Directors. The Hospital operates a hospital which provides acute and long-term care services and operates outpatient clinics.

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, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as county appropriations), property taxes, 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.

Budgetary Principles

The Hospital is required by state statutes to adopt an annual budget for its general funds on or before August 25 for the ensuing year. The Hospital's Board of Directors may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

For budget purposes, the general fund utilizes the modified accrual basis of accounting. The modification in such method from the accrual basis is that revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted governmental fund types, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the calendar year. There were no material encumbrances at December 31, 2019 and 2018. Budgeted revenue and expenditure amounts represent the original budget adopted by the Board.

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2019 and 2018

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, liabilities and deferred inflows and outflows of resources 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. There were no cash equivalents for the years ended December 31, 2019 and 2018.

Noncurrent Cash and Certificates of Deposit and Investment Income

Noncurrent cash and certificates of deposit include 1) funds internally designated by the Board of Directors to be used for physician recruitment and replacement of capital assets or for the purchase of additional capital assets and 2) funds externally restricted by donors and grantors for student scholarships/loans and other specific purposes. The internally designated funds may be used for other purposes by action of the Board of Directors. Noncurrent cash and certificates of deposit consist of certificates of deposit, which are carried at amortized cost, and savings accounts.

Investment income includes interest income.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for 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.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2019 and 2018

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 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	8-15 years
Buildings	10-40 years
Fixed equipment	5-20 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 and sick 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. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date.

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; professional liability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Deferred Inflows of Resources

The Hospital reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheets. Deferred inflows of resources consist of property taxes levied against members of the tax district.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

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 outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is made up of 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 net position.

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. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a 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.

Property Taxes

The Hospital received approximately 20% and 20% of its financial support from property taxes in 2019 and 2018, respectively. One hundred percent of these funds were used to support operations in both years.

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year tax basis and become a lien on the property on November 1 of each year. The county treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2019 and 2018

current year are not due and receivable until the ensuing year. At December 31, such taxes are a lien on the property and are recorded as property taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as deferred property tax revenue on the balance sheets.

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. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Reclassifications

A certain reclassification has been made to the 2018 financial statements to conform to the 2019 presentation. The reclassification had no effect on the changes in financial position.

Revision

A certain immaterial revision has been made to the 2018 statement of cash flows for the inadvertent clerical omission of the cash flows related to estimated amounts due to third-party payers. The previous amount was understated by \$690,000, which caused net cash used in operating activities and the ending cash balance in the statement of cash flows to be understated by \$690,000. This revision had no impact to the balance sheets or statements of revenues, expenses and changes in net position.

Note 2: 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, respectively, none of the Hospital's bank balances of \$919,892 and \$2,294,700 were exposed to custodial credit risk.

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2019 and 2018

Summary of Carrying Values

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

	<u>2019</u>	<u>2018</u>
Cash	\$ 13,942	\$ 847,004
Certificates of deposit	514,600	723,500
Noncurrent cash and certificates of deposit	<u>175,893</u>	<u>704,638</u>
	<u>\$ 704,435</u>	<u>\$ 2,275,142</u>

Note 3: 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:

	<u>2019</u>	<u>2018</u>
Medicare	\$ 466,166	\$ 469,061
Medicaid	197,360	123,485
Blue Cross	41,958	56,263
Other third-party payers	33,201	32,762
Self-pay	281,530	281,394
	<u>1,020,215</u>	<u>962,965</u>
Less allowance for uncollectible accounts	<u>(254,207)</u>	<u>(209,950)</u>
	<u>\$ 766,008</u>	<u>\$ 753,015</u>

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2019 and 2018

Note 4: Capital Assets

Capital assets activity for the years ended December 31, 2019 and 2018, was:

	2019			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Land improvements	45,537	12,350	-	57,887
Buildings	1,879,067	-	-	1,879,067
Fixed equipment	1,356,425	18,982	(9,629)	1,365,778
Moveable equipment	1,183,071	-	-	1,183,071
	<u>4,468,100</u>	<u>31,332</u>	<u>(9,629)</u>	<u>4,489,803</u>
Less accumulated depreciation				
Land improvements	45,203	677	-	45,880
Buildings	1,419,202	69,670	-	1,488,872
Fixed equipment	766,904	106,409	(9,629)	863,684
Moveable equipment	753,705	102,220	-	855,925
	<u>2,985,014</u>	<u>278,976</u>	<u>(9,629)</u>	<u>3,254,361</u>
Capital Assets, Net	<u>\$ 1,483,086</u>	<u>\$ (247,644)</u>	<u>\$ -</u>	<u>\$ 1,235,442</u>
	2018			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Land improvements	45,537	-	-	45,537
Buildings	1,654,994	224,073	-	1,879,067
Fixed equipment	1,356,425	-	-	1,356,425
Moveable equipment	933,586	271,266	(21,781)	1,183,071
	<u>3,994,542</u>	<u>495,339</u>	<u>(21,781)</u>	<u>4,468,100</u>
Less accumulated depreciation				
Land improvements	44,400	803	-	45,203
Buildings	1,368,044	51,158	-	1,419,202
Fixed equipment	661,444	105,460	-	766,904
Moveable equipment	707,856	67,630	(21,781)	753,705
	<u>2,781,744</u>	<u>225,051</u>	<u>(21,781)</u>	<u>2,985,014</u>
Capital Assets, Net	<u>\$ 1,212,798</u>	<u>\$ 270,288</u>	<u>\$ -</u>	<u>\$ 1,483,086</u>

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2019 and 2018

Note 5: Capital Lease Obligations

Capital lease obligation activity for the years ended December 31, 2019 and 2018, was:

	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Capital lease obligations	<u>\$ 532,811</u>	<u>\$ -</u>	<u>\$ (130,299)</u>	<u>\$ 402,512</u>	<u>\$ 59,050</u>

	2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Capital lease obligations	<u>\$ 165,204</u>	<u>\$ 472,570</u>	<u>\$ (104,963)</u>	<u>\$ 532,811</u>	<u>\$ 126,139</u>

The Hospital is obligated under leases for equipment that are accounted for as capital leases. The capital leases are secured by the related assets as collateral. Capital assets include the following property under capital leases at December 31, 2019 and 2018:

	2019	2018
Fixed and moveable equipment	\$ 496,898	\$ 1,672,199
Accumulated depreciation	(129,933)	(650,474)
	<u>\$ 366,965</u>	<u>\$ 1,021,725</u>

The following is a schedule by year of future minimum lease payments under capital lease including interest rates of 2.75% to 6.00% together with the present value of the future minimum lease payments:

Year Ending December 31,	
2020	\$ 83,313
2021	87,461
2022	83,919
2023	83,920
2024	83,920
2025	<u>59,039</u>
Total minimum lease payments	481,572
Less amount representing interest	<u>79,060</u>
Present value of future minimum lease payments	<u>\$ 402,512</u>

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Professional Liability Coverage and Claims

The Hospital purchases professional liability 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 \$300,000 of coverage for each medical incident and \$900,000 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 professional liability 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.

Note 7: 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 recognized as a CAH. Under CAH rules, inpatient acute care and skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules and cost reimbursement methodologies, subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audits 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. Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 74% and 78% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended 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.

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2019 and 2018

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 and prospectively determined daily rates.

Note 8: Charity Care

The Hospital did not supply any charity care for the years ended December 31, 2019 and 2018.

Note 9: Pension Plans

The Hospital maintains a defined contribution plan (401(a) plan) for all eligible employees. Eligibility is established for all employees who are at least 18 years of age and have completed one year of service. The 401(a) plan provides elective employee contributions of 2.5% of the first \$16,000 of annual compensation and 5% of annual compensation in excess of \$16,000. Matching employer contributions are computed at 5% of the first \$16,000 of annual compensation and 10% of annual compensation in excess of \$16,000. The 401(a) plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the 401(a) plan to the employee's normal retirement date. Benefits begin to vest after one year of service with 100% vesting after five years of service. All funds contributed by the Hospital, which are not vested, will be returned to the 401(a) plan and remain in the 401(a) plan to reduce future employer contributions to the plan. Contributions actually made by plan members totaled \$93,092 and \$81,607 in 2019 and 2018, respectively. Hospital contributions totaled \$182,002 and \$172,585 in 2019 and 2018, respectively.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Contributions made by plan members totaled \$70,453 and \$54,017 during 2019 and 2018, respectively. The plan year begins on January 1 and ends December 31.

Note 10: Management/Services Agreement

The Board of Directors of the Hospital has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled 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 \$545,936 and \$468,313, respectively. Amounts payable to GPHA at December 31, 2019 and 2018, totaled \$63,223 and \$32,937, respectively.

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2019 and 2018

Note 11: Compliance with Budgetary Statutes

Kansas statutes require that fixed budgets be legally adopted for all enterprise and debt service funds. Budgets are prepared utilizing the modified accrual basis of accounting. Kansas statutes prohibit creating expenditures in excess of the total amount of the adopted budget of expenditures, which is prepared on a calendar year basis. Calendar year budgeted expenditures are compared to the Hospital's enterprise fund, which are on an annualized calendar year basis as follows:

	2019		
	Actual	Budget	Variance Under (Over)
General Fund			
Revenues			
Taxes	\$ 1,204,104	\$ 1,212,647	\$ 8,543
Patient related revenues	4,512,251	4,768,371	256,120
Interest income	34,891	25,000	(9,891)
Other	344,926	260,224	(84,702)
Total revenues	<u>6,096,172</u>	<u>6,266,242</u>	<u>170,070</u>
Expenses			
Patient related expenses	6,562,653	6,566,791	4,138
Interest expense	32,091	-	(32,091)
Capital outlay	31,332	175,000	143,668
Total expenses	<u>6,626,076</u>	<u>6,741,791</u>	<u>115,715</u>
Deficiency of revenues over expenses	<u>\$ (529,904)</u>	<u>\$ (475,549)</u>	<u>\$ 54,355</u>
2018			
	Actual	Budget	Variance Under (Over)
General Fund			
Revenues			
Taxes	\$ 1,203,269	\$ 1,227,263	\$ 23,994
Patient related revenues	4,609,201	4,340,095	(269,106)
Interest income	30,320	15,000	(15,320)
Other	256,314	187,102	(69,212)
Total revenues	<u>6,099,104</u>	<u>5,769,460</u>	<u>(329,644)</u>
Expenses			
Patient related expenses	6,331,411	5,993,575	(337,836)
Interest expense	13,315	-	(13,315)
Capital outlay	495,339	165,000	(330,339)
Total expenses	<u>6,840,065</u>	<u>6,158,575</u>	<u>(681,490)</u>
Deficiency of revenues over expenses	<u>\$ (740,961)</u>	<u>\$ (389,115)</u>	<u>\$ 351,846</u>

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2019 and 2018

The following reconciliation is presented to provide a correlation between the different basis of accounting for reporting in accordance with accounting principles generally accepted in the United States of America and for reporting on the budgetary basis:

	<u>2019</u>	<u>2018</u>
Decrease in net position - financial basis	\$ (791,762)	\$ (581,361)
Depreciation	278,976	225,051
Gain on disposal of capital assets	-	(50)
Provision for uncollectible accounts	14,214	110,738
Capital outlay	<u>(31,332)</u>	<u>(495,339)</u>
Deficiency of revenues over expenses	<u>\$ (529,904)</u>	<u>\$ (740,961)</u>

Note 12: GPHA Employee Benefits Trust

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. The Hospital is a member organization in the Trust and substantially all of the Hospital's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method. No insurance assessments were necessary for 2019 and 2018. The Hospital terminated their participation in this plan effective June 30, 2018.

Note 13: 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.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2019 and 2018

On April 10, 2020, the Hospital received approximately \$158,000 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 believes the Hospital will be able to attest to the requirements and retain all of 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 29, 2020, related to this special emergency grant.

On May 6, 2020, the Hospital received approximately \$2,729,000 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 believes the Hospital will be able to attest to the requirements and retain a portion, if not all, the stimulus payments.

On May 7, 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 approximately \$633,000 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.

On May 20, 2020, the Hospital received approximately \$99,000 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.

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2019 and 2018

Note 14: Future Change in Accounting Principle

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.