Minneola Hospital District No. 2

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Minneola Hospital District No. 2

December 31, 2019 and 2018

Contents

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Independent Auditor's Report

Board of Trustees
Minneola Hospital District No. 2
Minneola, Kansas

We have audited the accompanying financial statements of Minneola Hospital District No. 2 (Hospital), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Minneola Hospital District No. 2'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 and the provisions of the Kansas Municipal Audit and Accounting Guide; 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 Minneola Hospital District No. 2 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
May 21, 2020

Minneola Hospital District No. 2

Balance Sheets

December 31, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash	$ 197,201	$ 563,610
Patient accounts receivable, net of allowance 2019 – $332,828; 2018 – $190,939	1,248,421	1,322,203
Property taxes receivable	1,529,669	1,529,669
Estimated amounts due from third-party payers	161,375	333,878
Supplies	351,239	317,639
Prepaid expenses and other	61,032	39,939
Total current assets	3,548,937	4,106,938
Noncurrent Cash		
Designated by Board of Trustees	999,317	651,110
Restricted by donors for capital acquisitions	790	145,713
Restricted by donors for specific operating activities	8,320	8,187
	1,008,427	805,010
Capital Assets, Net	8,676,728	9,490,727
Total assets	$ 13,234,092	$ 14,402,675

See Notes to Financial Statements

Liabilities, Deferred Inflows of Resources and Net Position (Deficit)

	2019	2018
Current Liabilities		
Current maturities of long-term debt	$ 288,815	$ 299,130
Accounts payable	932,345	1,123,995
Accrued salaries	377,531	351,453
Accrued vacation	386,353	342,474
Accrued payroll taxes	171,529	163,444
Other accrued liabilities	445,715	416,027
Total current liabilities	2,602,288	2,696,523
Long-term Debt	9,463,784	9,779,601
Total liabilities	12,066,072	12,476,124
Deferred Inflows of Resources		
Property taxes	1,529,669	1,529,669
Net Position (Deficit)		
Net deficit in capital assets	(1,075,871)	(588,004)
Restricted - expendable for		
Capital acquisitions	790	145,713
Specific operating activities	8,320	8,187
Unrestricted	705,112	830,986
Total net position (deficit)	(361,649)	396,882
Total liabilities, deferred inflows of resources and net position (deficit)	$ 13,234,092	$ 14,402,675

Minneola Hospital District No. 2
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 – $451,955; 2018 – $244,267	$ 10,789,797	$ 10,400,503
Other	700,088	730,024
Total operating revenues	11,489,885	11,130,527
Operating Expenses		
Salaries and wages	6,573,374	6,171,027
Employee benefits	1,309,511	1,418,722
Supplies and other	5,413,168	5,040,334
Depreciation	926,202	943,203
Total operating expenses	14,222,255	13,573,286
Operating Loss	(2,732,370)	(2,442,759)
Nonoperating Revenues (Expenses)		
Property taxes	1,576,761	1,490,429
Noncapital grants and gifts	784,020	544,314
Investment income	10,187	16,325
Interest expense	(397,129)	(390,285)
Total nonoperating revenues	1,973,839	1,660,783
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	(758,531)	(781,976)
Capital Grants and Gifts	-	118,264
Decrease in Net Position	(758,531)	(663,712)
Net Position, Beginning of Year	396,882	1,060,594
Net Position (Deficit), End of Year	$ (361,649)	$ 396,882

Minneola Hospital District No. 2

Statements of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients	$ 11,036,082	$ 10,313,453
Payments to suppliers and contractors	(5,659,511)	(5,156,009)
Payments to employees	(7,775,155)	(7,128,417)
Other receipts, net	700,088	730,024
Net cash used in operating activities	(1,698,496)	(1,240,949)
Noncapital Financing Activities		
Property taxes	1,576,761	1,490,429
Noncapital grants and gifts	784,020	544,314
Net cash provided by noncapital financing activities	2,360,781	2,034,743
Capital and Related Financing Activities		
Capital grants and gifts	-	118,264
Proceeds from issuance of long-term debt	-	10,060,065
Principal paid on long-term debt	(420,227)	(8,231,609)
Interest paid on long-term debt	(397,129)	(390,285)
Purchases of capital assets	(18,108)	(1,518,767)
Net cash provided by (used in) capital and related financing activities	(835,464)	37,668
Investing Activities		
Investment income	10,187	16,325
Net cash provided by investing activities	10,187	16,325
Increase (Decrease) in Cash	(162,992)	847,787
Cash, Beginning of Year	1,368,620	520,833
Cash, End of Year	$ 1,205,628	$ 1,368,620
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	$ 197,201	$ 563,610
Cash in noncurrent cash	1,008,427	805,010
	$ 1,205,628	$ 1,368,620

Minneola Hospital District No. 2

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	$ (2,732,370)	$ (2,442,759)
Depreciation	926,202	943,203
Provision for uncollectible accounts	451,955	244,267
Changes in operating assets and liabilities		
Patient accounts receivable	(378,173)	(311,686)
Estimated amounts due from and to third-party payers	172,503	(19,631)
Supplies	(33,600)	(5,917)
Prepaid expenses and other	(21,093)	(28,699)
Accounts payable and accrued expenses	(83,920)	380,273
Net cash used in operating activities	$ (1,698,496)	$ (1,240,949)
Noncash Investing, Capital and Financing Activities		
Capital lease obligations incurred for capital assets	$ 94,095	$ 148,740

Minneola Hospital District No. 2

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

Minneola Hospital District No. 2 (Hospital) is a municipality of the state of Kansas and is governed by a Board of Trustees (Board) who is elected by the residents of the District. The Hospital consists of an acute care hospital, long-term care unit, and rural health clinics located in Minneola, Kansas and the surrounding area. The Hospital is licensed as a critical access hospital (CAH).

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 annual budgets on or before August 25 for the ensuing calendar year. The Board 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.

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 or that have not been designated by the Board for capital acquisitions to be cash equivalents. There were no cash equivalents at December 31, 2019 and 2018.

Noncurrent Cash and Investment Income

Noncurrent cash and investments consist of funds internally designated by the Board for future capital acquisitions, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Noncurrent cash also include assets held by the Hospital auxiliary and restricted funds by grantors and donors.

Investment income consists of interest income earned on cash and noncurrent cash.

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.

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	12-15 years
Buildings	10-50 years
Fixed equipment	5-30 years
Moveable equipment	5-30 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

The Hospital’s policies permit employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in the case of accumulated vacation, 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 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.

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 other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Deferred Inflows of Resources

The Hospital reports the consumption of net position that is applicable to a future reporting period as deferred outflows 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.

Net Position (Deficit)

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

- Net investment (deficit) 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 11% of its financial support from property taxes in 2019 and 2018.

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 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 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 taxes receivable, net of amounts received and anticipated delinquencies. Taxes receivable are also deferred and amortized ratably to income throughout the fiscal year.

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.

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, $1,042,233 and $1,101,776 of the Hospital's bank balances of $1,292,233 and $1,351,776 were exposed to custodial credit risk as follows:

	2019	2018
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	$ 1,042,233	$ 1,101,776

Summary of Carrying Values

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

	2019	2018
Cash	$ 197,201	$ 563,610
Noncurrent cash	1,008,427	805,010
	$ 1,205,628	$ 1,368,620

Minneola Hospital District No. 2
Notes to Financial Statements
December 31, 2019 and 2018

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:

	2019	2018
Medicare	$ 518,669	$ 468,175
Medicaid	113,055	147,527
Blue Cross	186,757	116,983
Other third-party payers	224,884	179,905
Self-pay	537,884	600,552
	1,581,249	1,513,142
Less allowance for uncollectible accounts	332,828	190,939
	$ 1,248,421	$ 1,322,203

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 84,601	$ -	$ -	$ -	$ 84,601
Land improvements	149,656	-	-	-	149,656
Buildings	9,783,339	-	-	-	9,783,339
Fixed equipment	1,046,737	-	-	-	1,046,737
Major moveable equipment	2,558,145	112,203	(2,981)	-	2,667,367
	13,622,478	112,203	(2,981)	-	13,731,700
Less accumulated depreciation					
Land improvements	20,415	9,777	-	-	30,192
Buildings	2,045,683	555,046	-	-	2,600,729
Fixed equipment	360,723	125,087	-	-	485,810
Major moveable equipment	1,704,930	236,292	(2,981)	-	1,938,241
	4,131,751	926,202	(2,981)	-	5,054,972
Capital Assets, Net	$ 9,490,727	$ (813,999)	$ -	$ -	$ 8,676,728

Minneola Hospital District No. 2

Notes to Financial Statements

December 31, 2019 and 2018

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 84,601	$ -	$ -	$ -	$ 84,601
Land improvements	139,983	-	-	9,673	149,656
Buildings	7,676,257	29,821	-	2,077,261	9,783,339
Fixed equipment	721,336	11,701	-	313,700	1,046,737
Major moveable equipment	2,439,767	216,714	(98,336)	-	2,558,145
Construction in progress	1,990,415	410,219	-	(2,400,634)	-
	13,052,359	668,455	(98,336)	-	13,622,478
Less accumulated depreciation					
Land improvements	10,692	9,723	-	-	20,415
Buildings	1,500,192	545,491	-	-	2,045,683
Fixed equipment	230,990	129,733	-	-	360,723
Major moveable equipment	1,545,010	258,256	(98,336)	-	1,704,930
	3,286,884	943,203	(98,336)	-	4,131,751
Capital Assets, Net	$ 9,765,475	$ (274,748)	$ -	$ -	$ 9,490,727

Note 5: Long-term Obligations

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

	2019					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Revenue bonds payable						
Series 2018-1	$ 9,000,000	$ -	$ (134,985)	$ 8,865,015	$ 139,710	$ 8,725,305
Series 2018-2	700,000	-	(12,150)	687,850	12,484	675,366
Capital lease obligations	378,731	94,095	(273,092)	199,734	136,621	63,113
	$ 10,078,731	$ 94,095	$ (420,227)	$ 9,752,599	$ 288,815	$ 9,463,784

	2018					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Revenue bonds payable						
Series 2015	$ 7,708,471	$ 360,065	$ (8,068,536)	$ -	$ -	$ -
Series 2018-1	-	9,000,000	-	9,000,000	134,985	8,865,015
Series 2018-2	-	700,000	-	700,000	12,150	687,850
Capital lease obligations	393,064	148,740	(163,073)	378,731	151,995	226,736
	$ 8,101,535	$ 10,208,805	$ (8,231,609)	$ 10,078,731	$ 299,130	$ 9,779,601

Revenue Anticipation Revenue Bonds Series 2015

The Revenue Anticipation Revenue Bonds Series 2015 (2015 Series) were issued in an aggregate principal amount not to exceed $9,000,000. The 2015 Series bonds are due January 1, 2018, and bear interest on the principal amount as advanced from time to time at 2.56% per annum. Interest payments are due on the first day of January, April, July and October of each month starting with the first interest payment on April 1, 2016. The Hospital issued these 2015 Series bonds in order to finance the improving and equipping of the existing hospital facility by remodeling existing space, demolishing the current clinic and business office and replacing with new clinic and inpatient space. The project is expected to be completed in January 2018. The 2015 Series bonds were secured under the bond indenture agreement dated December 30, 2015. In conjunction with this bond issue and as part of the United States Department of Agriculture (USDA), Rural Development Program, the Hospital obtained a loan commitment from the USDA not to exceed $9,000,000. During 2018, the Series 2015 bonds were refunded and permanent financing was provided by the USDA through the issuance of the Series 2018-1 bonds.

Hospital Refunding and Improvement Revenue Bonds – Series 2018-1

On February 26, 2018, the Hospital issued $9,000,000 in Series 2018-1 Hospital Refunding and Improvement Revenue Bonds with an average interest rate of 3.50% to advance refund the outstanding 2015 Series bonds with an average interest rate of 2.56%. The net proceeds of $9,000,000, after payment of underwriting fees and other issuance costs, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2015 Series bonds. As a result, the 2015 Series bonds are considered to be defeased, and the liability for those bonds has been removed from the Hospital's balance sheet.

Hospital Revenue Bonds – Series 2018-2

The Series 2018-2 Hospital Revenue Bonds payable consist of bonds in the original amount of $700,000 dated February 26, 2018, which bear interest at 2.75%. The bonds are payable in annual installments through February 26, 2053. The Hospital is required to make monthly deposits at a pro-rated amount of the next maturing principal and interest to the debt service fund held by the trustee. All of the bonds still outstanding may be redeemed at the Hospital's option at any time, at 100%. The bonds are secured by the net revenues of the Hospital. Proceeds from the issuance of these bonds were used to pay project costs related to capital expenditures.

The indenture agreements require the Hospital to comply with certain restrictive covenants including maintaining a historical debt service coverage ratio of at least 1.10. The Hospital failed to comply with the required debt service coverage ratio of at least 1.10 at December 31, 2019. Under the bond agreement, the Hospital is required to engage a consultant to help determine a plan to get the Hospital back to a financial position where they are in compliance with the required covenants.

Debt Service Requirements

Debt service requirements on long-term debt other than capital lease obligations as of December 31, 2019, are as follows:

Year Ending December 31,	Total to be Paid	Bonds Principal	Bonds Interest
2020	$ 481,385	$ 152,194	$ 329,191
2021	481,384	157,426	323,958
2022	481,385	162,840	318,545
2023	481,385	168,441	312,944
2024	481,385	174,235	307,150
2025-2029	2,406,923	965,327	1,441,596
2030-2034	2,406,923	1,143,303	1,263,620
2035-2039	2,406,923	1,354,216	1,052,707
2040-2044	2,406,923	1,604,183	802,740
2045-2049	2,406,923	1,900,454	506,469
2050-2053	1,925,537	1,770,246	155,291
	$ 16,367,076	$ 9,552,865	$ 6,814,211

Capital Lease Obligations

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
Equipment	$ 404,239	$ 599,917
Less accumulated depreciation	207,200	170,950
	$ 197,039	$ 428,967

The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 1.53% to 8% together with the present value of the future minimum lease payments as of December 31, 2019:

Year Ending December 31,	
2020	$ 144,352
2021	60,159
2022	4,499
Total minimum lease payments	209,010
Less amount representing interest	9,276
Present value of future minimum lease payments	$ 199,734

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 $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 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. Effective July 1, 2016, 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 69% and 66% 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.

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

Note 8: Charity Care

The costs of charity care provided under the Hospital District’s charity care policy were approximately $15,000 and $27,000 for 2019 and 2018, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 9: 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 related to the 340B Program of $531,778 and $528,563 for the years ending December 31, 2019 and 2018, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Hospital recorded expenses related to the 340B Program of $286,194 and $324,571 for the years ending December 31, 2019 and 2018, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. The 340B 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 10: Pension Plans

The Hospital provides a defined contribution plan (401(a) plan) for all eligible employees. Eligibility is established for all employees who have completed one year of service (at least 1,000 paid hours) and be 21 years of age or older. Hospital contributions to the plan are computed at the rate of 4.5% of an employee's annual compensation up to $150,000. Employee contribution to the plans are computed at the rate of 2.5% of an employee's annual compensation up to $150,000. Benefits are funded by a money-purchase annuity contract with an insurance company. The plan is funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the plan to the employee's normal retirement date. In case of death or termination of employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital. Contributions made by plan members were $113,404 and $114,467 for 2019 and 2018, respectively. Contributions made by the Hospital were $200,127 and $206,029 for 2019 and 2018, respectively.

The Hospital provides one additional deferred compensation plan (457 plan). Contributions made by plan members were $114,265 and $114,131 for 2019 and 2018, respectively. The Hospital does not make contributions to the 457 plan.

Note 11: Management/Services Agreement

The Board has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing services, medical records software, and central billing office services. 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 totaled $824,504 and $806,532 in 2019 and 2018, respectively. Amounts included in accounts payable related to these services totaled $148,167 and $321,403 at December 31, 2019 and 2018, respectively. In 2020, the Hospital terminated the management agreement.

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 in 2019 and 2018.

Note 13: 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	$ 1,576,761	$ 1,611,070	$ 34,309
Patient related revenues	11,241,752	10,388,599	(853,153)
Investment income	10,187	21,946	11,759
Other	1,484,108	1,138,428	(345,680)
Total revenues	14,312,808	13,160,043	(1,152,765)
Expenses			
Patient related expenses	13,296,053	13,005,864	(290,189)
Interest expense	397,129	-	(397,129)
Capital outlay	112,203	330,000	217,797
Total expenses	13,805,385	13,335,864	(469,521)
Excess (deficiency) of revenues over expenses	$ 507,423	$ (175,821)	$ 683,244

	2018		
	Actual	Budget	Variance Under (Over)
General Fund			
Revenues			
Taxes	$ 1,490,429	$ 1,505,026	$ 14,597
Patient related revenues	10,644,770	10,218,997	(425,773)
Investment income	16,325	27,000	10,675
Other	1,392,602	629,511	(763,091)
Total revenues	13,544,126	12,380,534	(1,163,592)
Expenses			
Patient related expenses	12,630,083	12,195,372	(434,711)
Interest expense	390,285	-	(390,285)
Capital outlay	668,455	260,000	(408,455)
Total expenses	13,688,823	12,455,372	(1,233,451)
Deficiency of revenues over expenses	$ (144,697)	$ (74,838)	$ (69,859)

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:

	2019	2018
Decrease in net position - financial basis	$ (758,531)	$ (663,712)
Depreciation	926,202	943,203
Provision for uncollectible accounts	451,955	244,267
Capital outlay	(112,203)	(668,455)
Excess (deficiency) of revenues over expenses	$ 507,423	$ (144,697)

Note 14: 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 $347,000 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 21, 2020, related to this special emergency grant.

On April 21, 2020, the Hospital received approximately $3,192,000 of advanced Medicare payments through the Medicare Accelerated and Advanced Payment Program. This is a short-term advance payment that will have to be paid back on terms that are set by the regulations. The Hospital will continue to submit claims as usual after receiving the advanced payment; however, 120 calendar days after the lump-sum accelerated payment is received, the Medicare Administrative Contractor will recoup 100% of any future Medicare remittance payments to satisfy the accelerated payment received by the Hospital. The Hospital's Medicare payments will be reduced until the accelerated payment amount is paid off in full. This could lead to periods where Medicare payments are zero dependent on the amount of advanced payment received by the Hospital and current billings to Medicare. After a defined period of time, as set by the regulations, if the entire advanced amount is not paid in full, the Centers for Medicare and Medicaid Services will expect the Hospital to submit payment of any unpaid balance. Acute care and critical access hospitals have one year from the date the accelerated payment is received to repay any unpaid balance in full. At the end of the repayment period, the Hospital may request extended repayment plans for unpaid amounts, which will accrue interest at the prevailing interest rate (currently 10.25%).

On May 1, 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 $889,000 at 1.00% interest with a maturity date of May 1, 2022. 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 6, 2020, the Hospital received approximately $3,381,000 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 $148,000 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 15: 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.