Ashland Hospital District No. 3

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Ashland Hospital District No. 3

December 31, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Ashland Hospital District No. 3
Ashland, Kansas

We have audited the accompanying financial statements of Ashland Hospital District No. 3 (Hospital), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Ashland Hospital District No. 3'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.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ashland Hospital District No. 3 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 and the Kansas Municipal Audit and Accounting Guide.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension and other postemployment benefits information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted 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 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

Ashland Hospital District No. 3

Balance Sheets

December 31, 2019 and 2018

Assets and Deferred Outflows of Resources

	2019	2018
Current Assets		
Cash and cash equivalents	$ 376,474	$ 380,699
Certificates of deposit	1,500,000	-
Held by trustee for debt service	261,297	75,915
Patient accounts receivable, net of allowance; 2019 – $426,924; 2018 – $623,319	1,246,473	2,229,744
Property taxes receivable	1,687,898	1,682,249
Estimated amounts due from third-party payers	54,149	-
Supplies	113,412	107,184
Prepaid expenses and other	17,001	12,443
Total current assets	5,256,704	4,488,234
Noncurrent Cash and Investments		
Internally designated by Board of Trustees	22,145	6,230
Restricted by donors for specific operating activities	2,917	46,182
Held by trustee for debt service	6,000	6,000
	31,062	58,412
Capital Assets, Net	13,924,980	14,963,541
Total assets	19,212,746	19,510,187
Deferred Outflows of Resources		
Pension	336,117	403,610
Other postemployment benefits	90,701	-
Total deferred outflows of resources	426,818	403,610
Total assets and deferred outflows of resources	$ 19,639,564	$ 19,913,797

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

	2019	2018
Current Liabilities		
Current portion of long-term debt	$ 1,034,691	$ 1,026,255
Accounts payable	398,436	642,820
Accrued salaries	94,229	76,968
Accrued vacation	64,100	89,076
Other accrued liabilities	209,497	343,001
Estimated amounts due to third-party payers	715,000	230,486
Total current liabilities	2,515,953	2,408,606
Long-term Debt	13,111,230	14,106,339
Net Pension Liability	2,199,199	2,182,327
Total Other Postemployment Benefits Liability	137,109	32,290
Total liabilities	17,963,491	18,729,562
Deferred Inflows of Resources		
Property taxes	1,687,898	1,682,249
Pension	214,437	302,877
Other postemployment benefits	12,547	14,193
Total deferred inflows of resources	1,914,882	1,999,319
Net Position (Deficit)		
Net investment (deficit) in capital assets	(120,941)	30,947
Restricted - expendable for		
Debt service	267,297	81,915
Specific operating activities	2,917	46,182
Unrestricted	(388,082)	(974,128)
Total net deficit	(238,809)	(815,084)
Total liabilities, deferred inflows of resources and net deficit	$ 19,639,564	$ 19,913,797

Ashland Hospital District No. 3

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 – $39,842; 2018 – $83,146	$ 7,481,669	$ 6,588,194
Other	23,276	37,426
Total operating revenues	7,504,945	6,625,620
Operating Expenses		
Salaries	2,980,113	3,200,905
Supplies and other	4,028,013	2,992,978
Depreciation	1,143,645	1,154,327
Loss on disposal of capital assets	-	118,308
Total operating expenses	8,151,771	7,466,518
Operating Loss	(646,826)	(840,898)
Nonoperating Revenues (Expenses)		
Property taxes	1,729,360	1,749,193
Noncapital grants and gifts	16,411	503,749
Interest income	17,419	7,072
Interest expense	(540,089)	(575,281)
Total nonoperating revenues	1,223,101	1,684,733
Increase in Net Position	576,275	843,835
Net Deficit, Beginning of Year	(815,084)	(1,658,919)
Net Deficit, End of Year	$ (238,809)	$ (815,084)

Ashland Hospital District No. 3

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	$ 8,895,305	$ 5,825,085
Payments to suppliers and contractors	(4,283,183)	(3,615,425)
Payments to employees	(3,112,935)	(3,288,052)
Other receipts, net	23,276	155,734
Net cash provided by (used in) operating activities	1,522,463	(922,658)
Cash Flows From Noncapital Financing Activities		
Property taxes supporting operations	1,729,360	1,749,193
Noncapital grants and gifts	16,411	503,749
Net cash provided by noncapital financing activities	1,745,771	2,252,942
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(60,704)	-
Proceeds from disposal of capital assets	-	64,000
Principal paid on long-term debt	(977,008)	(714,732)
Interest paid on long-term debt	(594,134)	(630,794)
Net cash used in capital and related financing activities	(1,631,846)	(1,281,526)
Cash Flows From Investing Activities		
Interest income received	17,419	7,072
Purchase of certificates of deposit	(1,500,000)	-
Net cash provided by (used in) investing activities	(1,482,581)	7,072
Increase in Cash and Cash Equivalents	153,807	55,830
Cash and Cash Equivalents, Beginning of Year	515,026	459,196
Cash and Cash Equivalents, End of Year	$ 668,833	$ 515,026
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	$ 637,771	$ 456,614
Cash and cash equivalents in noncurrent assets	31,062	58,412
Total cash and cash equivalents	$ 668,833	$ 515,026

Ashland Hospital District No. 3

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	$ (646,826)	$ (840,898)
Depreciation	1,143,645	1,154,327
Loss on disposal of capital assets	-	118,308
Provision for uncollectible accounts	39,842	83,146
Changes in operating assets and liabilities		
Patient accounts receivable, net	943,429	(1,160,639)
Estimated amounts due from and to third-party payers	430,365	314,384
Supplies	(6,228)	773
Prepaid expenses and other	(4,558)	12,536
Accounts payable	(244,384)	(517,448)
Accrued salaries	17,261	10,062
Accrued vacation	(24,976)	(11,172)
Other accrued liabilities	(133,504)	19,484
Net pension liability	16,872	7,746
Total other postemployment benefits liability	104,819	(17,236)
Deferred outflows of resources - pension and OPEB	(23,208)	(14,631)
Deferred inflows of resources - pension and OPEB	(90,086)	(81,400)
Net cash provided by (used in) operating activities	$ 1,522,463	$ (922,658)
Noncash Investing, Capital and Financing Activities		
Capital lease obligation incurred for capital assets	$ 44,380	$ -
Amortization of bond premium	$ 54,045	$ 55,513

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

Nature of Operations and Reporting Entity

Ashland Hospital District No. 3 (Hospital) is a political subdivision of the State of Kansas. The Hospital operates the Ashland Health Center which primarily earns revenues by providing inpatient, outpatient, emergency care, rural health clinic and home health services. The Hospital is governed by a Board of Trustees (Board) consisting of five members elected by residents of the Hospital.

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 nonexchange or voluntary 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 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 to be cash equivalents. At December 31, 2019, cash equivalents consisted primarily of money market accounts.

Certificates of Deposit

Certificates of deposits have remaining maturities of one year or less and are carried at amortized cost.

Noncurrent Cash and Investments

Noncurrent cash and investments consist of funds internally designated by the Board, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Designated by Board funds include money market accounts. Noncurrent cash and investments also include cash restricted by donors for specific operating activities and funds held by trustee for debt service, which consist of money market accounts and investments in U.S. Government and agency obligations with a remaining maturity of one year or less at time of acquisition carried at amortized cost.

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 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	5-15 years
Buildings	10-33 years
Equipment	3-25 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.

Deferred Outflows 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.

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. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. 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 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.

Cost-Sharing Defined Benefit Pension Plan

The Hospital participates in a cost-sharing multiple-employer defined benefit pension plan, the Kansas Public Employees Retirement Savings Plan (KPERS). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of KPERS and additions to/deductions from KPERS's fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Defined Benefit Other Postemployment Benefit Plan

The Hospital has a single-employer defined benefit other postemployment benefit (OPEB) plan, Long-Term Disability (LTD) Plan (the OPEB Plan). For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

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.

Bond Premium

Bond premiums are being amortized over the life of the related debt using the effective interest method. The unamortized bond premiums are included as an addition to long-term debt and are reflected as both current and long-term in the accompanying balance sheets. The amortization of the bond premium is recorded as a component of interest expense. The amortization of the bond premium was recorded as a component of capitalized interest costs during the construction period.

Net Position (Deficit)

Net position 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 include 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 19% 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 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 inflows of resources - property taxes 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.

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 and other acceptable collateral having an aggregate value at least equal to the amount of the deposits.

At December 31, 2019 and 2018, respectively, $1,445,586 and $181,974 of the Hospital's bank balances of $1,945,586 and $460,687 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	$ 1,445,586	$ 181,974

Summary of Carrying Values

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

	2019	2018
Carrying value		
Deposits	$ 1,901,536	$ 433,111
Included in the following balance sheet captions		
Cash and cash equivalents	$ 376,474	$ 380,699
Certificates of deposit	1,500,000	-
Internally designated by Board of Trustees	22,145	6,230
Restricted by donors for specific operating activities	2,917	46,182
	$ 1,901,536	$ 433,111

Ashland Hospital District No. 3

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	$ 764,326	$ 1,794,467
Medicaid	193,752	109,566
Blue Cross	97,237	94,675
Other third-party payers	100,571	101,258
Self-pay	517,511	753,097
	1,673,397	2,853,063
Less allowance for uncollectible accounts	426,924	623,319
	$ 1,246,473	$ 2,229,744

Note 4: Capital Assets

Capital assets activity for the years ended December 31 was:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 67,500	$ -	$ -	$ -	$ 67,500
Land improvements	956,880	-	-	-	956,880
Buildings	13,095,807	-	-	-	13,095,807
Equipment	3,309,747	49,720		-	3,359,467
Construction in progress	-	55,364	-	-	55,364
	17,429,934	105,084	-	-	17,535,018
Less accumulated depreciation					
Land improvements	94,079	75,263	-	-	169,342
Buildings	948,916	759,133	-	-	1,708,049
Equipment	1,423,398	309,249	-	-	1,732,647
	2,466,393	1,143,645	-	-	3,610,038
Capital assets, net	$ 14,963,541	$ (1,038,561)	$ -	$ -	$ 13,924,980

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2019 and 2018

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 78,000	$ -	$ (10,500)	$ -	$ 67,500
Land improvements	985,240	-	(28,360)	-	956,880
Buildings	13,679,384	-	(583,577)	-	13,095,807
Equipment	3,741,077	-	(431,330)	-	3,309,747
	18,483,701	-	(1,053,767)	-	17,429,934
Less accumulated depreciation					
Land improvements	34,155	75,263	(15,339)	-	94,079
Buildings	656,513	769,318	(476,915)	-	948,916
Equipment	1,492,857	309,746	(379,205)	-	1,423,398
	2,183,525	1,154,327	(871,459)	-	2,466,393
Capital assets, net	$ 16,300,176	$ (1,154,327)	$ (182,308)	$ -	$ 14,963,541

Note 5: Long-term Debt

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

	2019				
	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
Taxable no fund warrants	$ 200,000	$ -	$ (100,000)	$ 100,000	$ 100,000
Capital lease obligations	14,394,996	44,380	(877,008)	13,562,368	883,206
	14,594,996	44,380	(977,008)	13,662,368	983,206
Unamortized bond premium	537,598	-	(54,045)	483,553	51,485
	$ 15,132,594	$ 44,380	$ (1,031,053)	$ 14,145,921	$ 1,034,691

	2018				
	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
Taxable no fund warrants	$ 300,000	$ -	$ (100,000)	$ 200,000	$ 100,000
Capital lease obligations	15,009,728	-	(614,732)	14,394,996	872,209
	15,309,728	-	(714,732)	14,594,996	972,209
Unamortized bond premium	593,111	-	(55,513)	537,598	54,046
	$ 15,902,839	$ -	$ (770,245)	$ 15,132,594	$ 1,026,255

Taxable No-fund Warrants

A resolution authorizing the issuance and delivery of $400,000 principal amount of taxable no-fund warrants Series 2016 of Hospital District No. 3, Clark County, Kansas was passed in January 2016. The taxable no-fund warrants bear interest at 4.5%. The no-fund warrants are payable in annual installments through February 1, 2020. Interest is payable semiannually beginning July 1, 2016.

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

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	$ 102,250	$ 100,000	$ 2,250

Capital Lease Obligations

In October 2015, the City of Ashland, Kansas (City) and the City of Ashland Public Building Commission (PBC) entered into agreements to issue $9,000,000 of Ashland, Kansas, Public Building Commission Revenue Bonds, Series 2015 (2015 Bonds) to pay a portion of the costs to construct, furnish and equip a new hospital facility and improvements in an amount not to exceed $15,100,000.

In June 2016, the City and the PBC entered into agreements to issue $5,510,000 of Ashland, Kansas, Public Building Commission Revenue Bonds, Series 2016 (2016 Bonds) to pay the remaining portion of the costs to construct, furnish and equip a new hospital facility and improvements in an amount not to exceed $15,100,000.

The new facility was constructed on a new site owned by the Hospital. In connection with these agreements, the Hospital transferred title to its facility to the PBC. Under the terms of the agreement, the City leased the facility from the PBC and then subleased it to the Hospital. The sublease agreement with the City requires the Hospital to pay basic rent to the bond trustee equal to the principal and interest on the Bonds as they come due. The Hospital's obligation to make basic rent payments under the sublease is further secured by a pledge of its revenues. Upon retirement of the Bonds, the Hospital will assume title and ownership of the facility. The sublease agreement has been accounted for as a capital lease agreement by the Hospital. Accordingly, the leased property and bond indebtedness has been included in the financial statements as assets and liabilities of the Hospital.

The Hospital is obligated under leases for buildings and 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
Buildings and equipment	$ 16,276,029	$ 16,231,649
Accumulated depreciation	(2,538,416)	(1,430,163)
	$ 13,737,613	$ 14,801,486

The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 2.125% to 5.000% together with the present value of the future minimum lease payments as of December 31, 2019:

Year Ending December 31,	
2020	$ 1,445,837
2021	1,411,406
2022	1,372,316
2023	1,328,108
2024	1,262,391
2025 - 2029	5,791,200
2030 - 2034	4,763,150
2035 - 2036	1,445,950
Total minimum lease payments	18,820,358
Less amount representing interest	5,257,990
Present value of future minimum lease payments	$ 13,562,368

Note 6: Professional Liability Coverage and Claims

The Hospital purchases professional liability insurance under a claims-made policy on a fixed premium basis. 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 claim 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, 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 a combination of fee schedules and cost reimbursement methodologies. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of annual cost reports 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.

Approximately 88% and 86% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for 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 8: Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately $21,000 and $9,000 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: Pension Plan

Plan Description

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS) plan, a cost-sharing multiple-employer defined benefit pension plan covering substantially all employees. KPERS is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74, Article 49: Kansas Public Employees Retirement System, Kansas Police and Fire Retirement System and Kansas Retirement System for Judges.

The KPERS plan is a cost-sharing multiple-employer, defined benefit pension plan. KPERS is intended to be a qualified retirement plan under Section 401(a) of the Code. Information relating to KPERS, including stand-alone financial statements, is available by writing to KPERS, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869 or accessing the internet at www.KPERS.org.

KPERS makes separate calculations for pension-related amounts for the following four groups participating in the plan:

- State/School
- Local
- Police and Firemen
- Judges

The Hospital's employees participate in the Local group.

Benefits Provided

Retirement benefits for employees are calculated based on the credited service, final average salary and a statutory multiplier. KPERs has two levels of benefits depending on retirement age and years of credited service. Tier 1 benefits are for members who are age 65 or age 62 with ten years of credited service or of any age when combined age and years of credited service equal 85 "points." Tier 2 benefits are for members who are age 65 with five years of credited service or age 60 with 30 years of credited service. Tier 1 members receive a participating service credit of 1.75% of the final average salary for years of service prior to January 1, 2014. Participating service credit is 1.85% of final average salary for years of service after December 31, 2013. Tier 2 members retiring on or after January 1, 2012, participating service credit is 1.85% for all years of service.

Early retirement is permitted at the age of 55 and ten years of credited service. Benefits are reduced by 0.2% per month for each month between the ages of 60-62, plus 0.6% for each month between the ages of 55 and 60 for Tier 1 members. For Tier 2 members, benefits are reduced actuarially for each early commencement. The reduction factor is 35% at the age of 60 and 57.5% at age 55. If the member has 30 years of credited service, the early retirement reduction is less (50% of regular reduction). The plan also provides disability and death benefits to plan members and their beneficiaries.

The terms of the plan provide for annual 2% cost-of-living adjustment for Tier 2 members who retired prior to July 1, 2012, beginning the later of age of 65 or the second July 1 after retirement date. Other participants do not receive a cost-of-living adjustment.

Contributions

The law governing KPERS requires an actuary to make an annual valuation of the liabilities and reserves and a determination of the contributions required to discharge the KPERS liabilities. The actuary then recommends to the KPERS Board of Trustees the state wide employer-contribution rates required to maintain the three systems on the actuarial reserve basis. Prior to January 1, 2014, Tier 1 participants were required to contribute 4% of their annual pay. Effective January 1, 2014, the rate was raised to 5% with an increase in the benefit multiplier to 1.85% beginning January 1, 2014, for future years of service only. Effective January 1, 2015, the contribution rate was raised to 6%. Tier 2 participants are required to contribute 6% of compensation. The Hospital's contractually required contribution rate for the years ended December 31, 2019 and 2018, was 8.89% and 8.39% of annual payroll, respectively. The employer contribution is actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The Hospital's contributions to KPERS for pensions for the years ended December 31, 2019 and 2018, were $278,271 and $268,104, respectively.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2019 and 2018, the Hospital reported a liability of $2,199,199 and $2,182,327, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2018 and 2017, respectively, rolled forward to June 30, 2019 and 2018, respectively. The Hospital's proportion of the net pension liability was based on the ratio of the Hospital's actual contributions to total employer and nonemployer actual contributions of the group for the respective measurement periods. At June 30, 2019, the Hospital's proportion was 0.157381%, which was an increase of 0.000806% from its proportion measured as of June 30, 2018, which was 0.156775%. The June 30, 2017, Hospital proportion was 0.150131%.

For the years ended December 31, 2019 and 2018, the Hospital recognized pension expense of $247,633 and $157,052, respectively. At December 31, 2019 and 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,814	$ 55,385
Net difference between projected and actual earnings on pension plan investments	67,216	-
Changes of assumptions	51,741	4,457
Changes in proportion	63,564	154,595
Hospital contributions subsequent to the measurement date	148,782	-
Total	$ 336,117	$ 214,437

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 7,879	$ 61,837
Net difference between projected and actual earnings on pension plan investments	51,052	-
Changes of assumptions	94,504	10,509
Changes in proportion	101,592	230,531
Hospital contributions subsequent to the measurement date	148,583	-
Total	$ 403,610	$ 302,877

At December 31, 2019, the Hospital reported $148,782 as deferred outflows of resources related to pension contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2019, related to pensions will be recognized in pension expense as follows:

2020	$ 3,724
2021	(59,443)
2022	8,793
2023	20,075
2024	(251)
	$ (27,102)

Actuarial Assumptions

The total pension liability in the December 31, 2018 and 2017, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%	2.75%
Salary increases, including inflation	3.5% to 12%	3.5% to 12%
Investment rate of return, net of pension plan investment expense, including inflation	7.75%	7.75%

Mortality rates were based on the RP-2014 Healthy Annuitant Table for males or females, as appropriate with adjustments for mortality improvements based on Scale MP-16 for the December 31, 2018 and 2017, actuarial valuations.

The actuarial assumptions used in the December 31, 2018 and 2017, valuations were based on the results of an actuarial experience study for the three-year period ended December 31, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

	2019		2018	
Asset Class	**Target Allocation**	**Long-term Expected Real Rate of Return**	**Target Allocation**	**Long-term Expected Real Rate of Return**
Global equity	47%	6.85%	47%	6.85%
Fixed income	13%	1.25%	13%	1.25%
Yield driven	8%	6.55%	8%	6.55%
Real return	11%	1.71%	11%	1.71%
Real estate	11%	5.05%	11%	5.05%
Alternatives	8%	9.85%	8%	9.85%
Short-term investments	2%	-0.25%	2%	-0.25%
	100%		100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.75% for the years ended June 30, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the contractually required rate. Participating employer contributions do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by KPERS' Board of Trustees for these groups may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in future years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The Hospital's proportionate share of the net pension liability has been calculated using a discount rate of 7.75%. The following presents the Hospital's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate as of December 31, 2019:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Hospital's proportionate share of the net pension liability	$ 3,284,549	$ 2,199,199	$ 1,291,323

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS' financial report.

Note 10: Other Postemployment Benefit Plan

Plan Description

The Hospital contributes to the KPERS Long-Term Disability plan (the OPEB Plan), a single-employer defined benefit other postemployment benefit (OPEB) plan covering substantially all employees. The OPEB Plan is administered by a board of trustees appointed by KPERS. The OPEB Plan's assets are not accumulated in a qualified trust because contributions from the employer to the OPEB plan and earnings on those contributions are not irrevocable. Benefit provisions are contained in the plan document and were established and can be amended by action of the KPERS's governing body. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

The OPEB Plan provides LTD and life insurance benefits to eligible disabled members. Benefits provided are self-funded, and the full cost of the benefits is covered by the OPEB Plan. The monthly benefit is 60% of the member's monthly rate of compensation, with a minimum of $100 and a maximum of $5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while disability continues until the member's 65th birthday or retirement date, whichever first occurs. If the disability occurs at or after age 60, benefits are payable while disability continues, for a period of five years or until the date of the member's retirement, whichever first occurs. Upon the death of a member who is receiving monthly disability benefits, the plan will pay a lump sum benefit to eligible beneficiaries. The benefit amount will be 150% of the greater of (a) the member's annual rate of compensation at the time of disability, or (b) the member's previous 12 months of compensation at the time of the last date on payroll. If the member had been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, he or she may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary.

The employees covered by the benefit terms at June 30 (the measurement date), are:

	2019	2018
Active employees	55	56
Disabled employees	1	1
	56	57

Total OPEB Liability

The Hospital's total OPEB liability of $137,109 and $32,290 was measured as of June 30, 2019 and 2018, for the years ended December 31, 2019 and 2018, respectively, and was determined by actuarial valuations as of December 31, 2018 and 2017, respectively, and rolled forward to June 30, 2019 and 2018, respectively.

The total OPEB liability in the December 31, 2018 and 2017, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2019	2018
Inflation	2.75%	2.75%
Discount rate	3.50%	3.87%
Salary increases, including inflation	3.50% to 10%	3.50% to 10%

The discount rate was based on the Bond Buyer General Obligation 20-Year Municipal Bond Index. The discount rate changed from 3.58% in 2017 to 3.87% in 2018 to 3.50% in 2019.

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups, as appropriate with adjustments for mortality improvements based on MP-2019 Mortality Tables for the December 31, 2018, actuarial valuation.

Mortality rates were based on the RP-2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups, as appropriate with adjustments for mortality improvements based on MP-2018 Mortality Tables for the December 31, 2017, actuarial valuation.

The actuarial assumptions used in the December 31, 2018, valuations were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2015.

The actuarial assumptions used in the December 31, 2017, valuations were based on the results of an actuarial experience study for the period July 1, 2014 – June 30, 2016.

Changes in the Total OPEB Liability

Changes in the total OPEB liability are:

	2019	2018
Balance, beginning of year	$ 32,290	$ 49,526
Changes for the year:		
Service cost	10,110	9,977
Interest	1,490	1,879
Differences between expected and actual experience	99,883	(14,564)
Changes of assumptions	1,207	(365)
Benefit payments	(7,871)	(14,163)
Net changes	104,819	(17,236)
Balance, end of year	$ 137,109	$ 32,290

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The total OPEB liability of the Hospital, at December 31, 2019, has been calculated using a discount rate of 3.50%. The following presents the total OPEB liability using a discount rate 1% higher and 1% lower than the 2019 discount rate:

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Hospital's total OPEB liability	$ 140,305	$ 137,109	$ 133,824

The total OPEB liability of the Hospital is not impacted by health care cost trend rates given the nature of the benefits provided by the OPEB plan, as such no sensitivity tables were prepared for the health care trend rates.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended December 31, 2019 and 2018, the Hospital recognized OPEB expense of $20,343 and $10,210, respectively. At December 31, 2019 and 2018, the Hospital reported deferred outflows or resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 89,618	$ (11,558)
Changes of assumptions	1,083	(989)
Total	$ 90,701	$ (12,547)

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (13,061)
Changes of assumptions	-	(1,132)
Total	$ -	$ (14,193)

Amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2019, related to OPEB will be recognized in OPEB expense as follows:

2020	$ 8,743
2021	8,743
2022	8,743
2023	8,743
2024	8,743
Thereafter	34,439
	$ 78,154

Note 11: Management Agreement

The Hospital has a management agreement with Great Plains Health Alliance, Inc. (GPHA), whereby GPHA agreed to administer operations of the Ashland Health Center and provide shared services for accounting, education and medical records. Fees incurred under the management agreement were $358,486 and $130,856 for 2019 and 2018, respectively. Amounts payable to GPHA at December 31, 2019 and 2018, totaled $55,245 and $72,971, respectively.

Note 12: 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	$ 1,729,360	$ 1,151,862	$ (577,498)
Patient related revenues	7,521,511	5,631,669	(1,889,842)
Interest income	17,419	6,373	(11,046)
Other	39,687	532,669	492,982
Total revenues	9,307,977	7,322,573	(1,985,404)
Expenses			
Patient related expenses	7,008,126	6,881,580	(126,546)
Interest expense	540,089	600,000	59,911
Capital outlay	49,720	950,000	900,280
Total expenses	7,597,935	8,431,580	833,645
Excess (deficiency) of revenues over expenses	$ 1,710,042	$ (1,109,007)	$ (2,819,049)

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2019 and 2018

	2018		
	Actual	Budget	Variance Under (Over)
General Fund			
Revenues			
Taxes	$ 1,749,193	$ 1,220,474	$ (528,719)
Patient related revenues	6,671,340	5,007,554	(1,663,786)
Interest income	7,072	1,606	(5,466)
Other	422,867	636,522	213,655
Total revenues	8,850,472	6,866,156	(1,984,316)
Expenses			
Patient related expenses	6,193,883	6,036,545	(157,338)
Interest expense	575,281	675,000	99,719
Capital outlay	-	112,500	112,500
Total expenses	6,769,164	6,824,045	54,881
Excess of revenues over expenses	$ 2,081,308	$ 42,111	$ (2,039,197)

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
Increase in net position - financial basis	$ 576,275	$ 843,835
Depreciation	1,143,645	1,154,327
Provision for uncollectible accounts	39,842	83,146
Capital outlay	(49,720)	-
Excess of revenues over expenses	$ 1,710,042	$ 2,081,308

Note 13: Great Plains 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 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 14, 2020, the Hospital received approximately $2,426,000 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 April 17, 2020, the Hospital received approximately $386,000 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 29, 2020, related to this special emergency grant.

On April 30, 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 $706,000 at 1.00% interest with a maturity date of April 30, 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 $3,036,000 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 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.

Required Supplementary Information

Ashland Hospital District No. 3

Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Kansas Public Employees Retirement System Plan
Last Ten Fiscal Years

	2019 *	2018 *	2017 *	2016 *
Hospital's proportion of the net pension liability	0.157381%	0.156575%	0.150131%	0.171870%
Hospital's proportionate share of the net pension liability	$ 2,199,199	$ 2,182,327	$ 2,174,581	$ 2,658,880
Hospital's covered-employee payroll	$ 2,656,810	$ 2,627,178	$ 2,798,992	$ 2,842,766
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	82.78%	83.07%	77.69%	93.53%
Plan fiduciary net position as a percentage of the total pension liability	69.88%	68.88%	67.12%	65.10%

Note to Schedule: This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

*The amounts presented for each fiscal year are as of the measurement date (June 30 of the year reported).

2015 *	2014 *
0.173977%	0.179562%
$ 2,284,395	$ 2,210,073
$ 2,926,161	$ 2,944,083
78.07%	75.07%
64.95%	66.60%

Ashland Hospital District No. 3

Schedule of the Hospital's Pension Contributions

Kansas Public Employees Retirement System Plan

Last Ten Fiscal Years

	2019 *	2018 *	2017 *	2016 *
Contractually required contribution	$ 278,271	$ 268,104	$ 239,061	$ 262,168
Contribution in relation to the contractually required contribution	278,271	268,104	239,061	262,168
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Hospital's covered-employee payroll	$ 2,710,008	$ 2,473,037	$ 2,726,769	$ 2,800,399
Contributions as a percentage of covered-employee payroll	10.27%	10.84%	8.77%	9.36%

Note to Schedule: This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

*The amounts presented for each fiscal year are as of the fiscal year-end (December 31 of the year reported).

2015 *	2014 *
$ 262,095	$ 272,257
262,095	272,257
$ -	$ -
$ 2,861,341	$ 2,990,981
9.16%	9.10%

Ashland Hospital District No. 3

Schedule of Changes in the Hospital's Total OPEB Liability and Related Ratios

Last Ten Fiscal Years

	2019 *	2018 *	2017 *
Total OPEB Liability			
Service cost	$ 10,110	$ 9,977	$ 10,780
Interest	1,490	1,879	1,598
Differences between expected and actual experience	99,883	(14,564)	-
Changes in assumptions	1,207	(365)	(1,015)
Benefit payments	(7,871)	(14,163)	(14,163)
Net Change in Total OPEB Liability	104,819	(17,236)	(2,800)
Hospital's Total OPEB Liability - Beginning	32,290	49,526	52,326
Hospital's Total OPEB Liability - Ending	$ 137,109	$ 32,290	$ 49,526
Hospital's Covered-Employee Payroll	$ 2,583,780	$ 2,647,782	$ 2,659,706
Hospital's Total OPEB Liability as a Percentage of Covered-employee Payroll	5.31%	1.22%	1.86%

Note to Schedule: This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

***Changes in assumptions*:** Discount rate changed from 2.85% for 2016 to 3.58 % for 2017 to 3.87% for 2018 and to 3.50% for 2019.

*The amounts presented for each fiscal year are as of the measurement date (June 30 of the year reported).