

Independent Auditor's Report and Financial Statements
Southwest Medical Center
December 31, 2021 and 2020

Contents

	Page
Management's Discussion and Analysis	1
Independent Auditor's Report	6
Financial Statements	
Statements of Net Position	9
Statements of Financial Position - Southwest Medical Center Foundation	10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Activities - Southwest Medical Center Foundation	12
Statements of Cash Flows	13
Statements of Cash Flows - Southwest Medical Center Foundation	15
Notes to Financial Statements	16
Required Supplementary Information	
Schedule of Medical Center's Proportionate Share of the Net Defined Pension Plan Liability	37
Schedule of Medical Center Contributions to Defined Pension Plan	38
Supplementary Information	
Balance in Depository Compared with Depository Security	40
Schedule of Revenues and Expenses with Budget Comparison	41
Summary of Insurance Coverage	42
Schedule of Expenditures of Federal Awards	44
Notes to Schedule of Expenditures of Federal Awards	45
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	46
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	48
Schedule of Findings and Questioned Costs	51

Southwest Medical Center
Management's Discussion and Analysis
Years ended December 31, 2021 and 2020

Our discussion and analysis of the financial performance of Southwest Medical Center provides a narrative overview of the Medical Center's financial activities for the years ended December 31, 2021 and 2020. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Medical Center's net position, or equity, increased \$12,776,497 or 25.5 percent during 2021 and increased \$3,033,070 or 6.4 percent during 2020.

The Medical Center reported a \$5,301,287 or 192.6 percent decrease in operating income for 2021 and a \$4,081,014 or 59.7 percent increase in operating income for 2020.

The net assets of Southwest Medical Center Foundation (the Foundation), a component unit of the Medical Center, increased \$960,316 or 14.2 percent during 2021 and increased \$216,900 or 3.1 percent during 2020.

Using these financial statements

The Medical Center's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Medical Center, including resources held by or for the benefit of the Medical Center, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Medical Center's resources and its activities in a way that helps answer this question.

These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes in it. The Medical Center's net position - the difference between assets, deferred outflows, liabilities, and deferred inflows - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Medical Center's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the Medical Center.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

Southwest Medical Center
Management's Discussion and Analysis - Continued
Years ended December 31, 2021 and 2020

Assets, deferred outflows, liabilities, deferred inflows, and net position

The Medical Center's statements of net position as of the end of each of the last three years ended December 31 are summarized as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets			
Current assets	\$ 40,404,330	\$ 41,967,119	\$ 26,515,216
Assets limited as to use	33,753,133	33,709,506	30,397,884
Capital assets, net	<u>24,119,868</u>	<u>24,200,472</u>	<u>23,962,740</u>
Total assets	<u>98,277,331</u>	<u>99,877,097</u>	<u>80,875,840</u>
Deferred outflows of resources on advance refunding	<u>745,903</u>	<u>819,068</u>	<u>892,234</u>
Liabilities			
Current liabilities	(6,930,133)	(19,347,208)	(5,819,013)
Long-term obligations	<u>(13,139,712)</u>	<u>(15,879,159)</u>	<u>(14,834,087)</u>
Total liabilities excluding net pension liability	<u>(20,069,845)</u>	<u>(35,226,367)</u>	<u>(20,653,100)</u>
Deferred inflows of resources on advance refunding	(100,371)		
Net pension liability, net of pension related deferred outflows and deferred inflows of resources	<u>(15,982,811)</u>	<u>(15,376,088)</u>	<u>(14,054,334)</u>
Net position	<u>\$ 62,870,207</u>	<u>\$ 50,093,710</u>	<u>\$ 47,060,640</u>

Cash and cash equivalents in the current asset category decreased by \$117,147 during 2021 and increased by \$8,867,393 during 2020.

Beginning in March 2020, the Medical Center, along with all healthcare providers in the United States, was negatively impacted by the worldwide coronavirus pandemic. Patient volumes and related revenues for the Medical Center's services were significantly impacted. In response, the Coronavirus Aid, Relief, and Economic Security Act (CARES) and subsequent legislation has provided funding during these uncertain times. The Medical Center was approved for a Patient Protection Program (PPP) loan and received several grants from Health and Human Services (HHS) to prevent, prepare for, and respond to coronavirus.

Most of the Medical Center's invested cash is set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets. Although, at the discretion of the Board, they may subsequently be used for other purposes, these assets are reported as internally designated assets limited as to use on the statements of net position. This category of assets remained relatively unchanged during 2021 and decreased by \$3,034,190 during 2020. Net transfers were made from operating cash to this category of assets that totaled \$3,600,000 in 2021 and \$5,911,313 in 2020.

Southwest Medical Center
Management's Discussion and Analysis - Continued
Years ended December 31, 2021 and 2020

In aggregate, the Medical Center's unrestricted cash and invested cash total was \$47,963,766 and \$48,085,777 as of December 31, 2021 and 2020, respectively. These represent 237 and 233 days, respectively, of cash expenses during each of the years then ended.

The Medical Center's net patient accounts receivable were 45 percent of current assets as of December 31, 2021, 46 percent as of December 31, 2020, and 51 percent as of December 31, 2019. In relation to net patient service revenue, net patient accounts receivable increased 1.1 percent during 2021, increased 30.9 percent during 2020, and increased 9.7 percent during 2019. The average number of days of net patient revenue represented by them was 90 days, 89 days, and 68 days as of December 31, 2021, 2020, and 2019, respectively. The increase in net patient accounts receivable in the year ending December 31, 2020, was partially due to a computer system upgrade with a go-live date of December 1, 2020. The days of net patient revenue in accounts receivable continue to be high in 2021 as a result of increased patient volume in the last quarter of 2021 and staffing challenges with billing and collection personnel.

During 2020, the Medical Center was granted a \$4,729,400 loan under the Payment Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. This loan was granted as a provision of the CARES Act. The outstanding balance of this loan and accrued interest was subsequently forgiven in May 2021.

During March 2021, the Medical Center issued \$4,650,000 in bonds as a refunding of the remaining 2010A bond issue. No new long-term obligations were incurred during 2020 or 2019.

At the end of 2021, the Medical Center had \$24,119,868 invested in capital assets, net of accumulated depreciation. The total value of capital assets acquired totaled \$3,280,169, \$3,169,807, and \$2,932,876 during 2021, 2020, and 2019, respectively.

The Medical Center's net position increased \$12,776,497 or 25.5 percent during 2021, \$3,033,070 or 6.4 percent during 2020, and increased \$7,161,490 or 17.9 percent during 2019. The percentage of total assets financed with its net position, or equity, was 59.1 percent, 50.2 percent, and 58.2 percent as of December 31, 2021, 2020, and 2019, respectively.

The Foundation's statements of financial position as of the end of its last three fiscal years ended June 30 are summarized as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets			
Current assets	\$ 6,579,909	\$ 5,620,369	\$ 5,834,811
Capital assets, net	435,505	441,994	448,483
Other assets	<u>740,980</u>	<u>738,475</u>	<u>738,765</u>
Total assets	7,756,394	6,800,838	7,022,059
Liabilities			
Current liabilities	<u>11,617</u>	<u>16,377</u>	<u>20,698</u>
Net assets	<u>\$ 7,744,777</u>	<u>\$ 6,784,461</u>	<u>\$ 7,001,361</u>

The Foundation's current assets consist primarily of investments in marketable securities. The Foundation's net assets increased \$960,316 or 14.2 percent during fiscal year 2021 and decreased \$216,900 or 3.1 percent during fiscal year 2020. These changes in net assets were primarily influenced by investment market conditions during those years.

Southwest Medical Center
Management's Discussion and Analysis - Continued
Years ended December 31, 2021 and 2020

Operating results and changes in net position

The Medical Center's operating results and changes in net position for each of the last three years ended December 31 are summarized as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating revenues	\$ 74,156,182	\$ 80,678,409	\$ 73,159,327
Operating expenses	(76,097,752)	(76,603,661)	(65,367,856)
Actuarial adjustment to pension expense	<u>(606,723)</u>	<u>(1,321,754)</u>	<u>(957,463)</u>
Operating income (loss)	(2,548,293)	2,752,994	6,834,008
Interest expense	(544,647)	(568,062)	(598,722)
SBA PPP loan forgiveness	4,729,400		
Noncapital COVID-19 grants	10,154,822		
Other nonoperating revenues	467,957	410,791	422,601
Capital COVID-19 grants	317,258		
Capital grants and contributions	<u>200,000</u>	<u>437,347</u>	<u>503,603</u>
Change in net position	<u>\$ 12,776,497</u>	<u>\$ 3,033,070</u>	<u>\$ 7,161,490</u>

The first, and most significant, component of the overall change in the Medical Center's net position is its operating income - generally, the difference between net patient service revenue and the expenses incurred to perform those services. Operating income decreased \$5,301,287 during 2021 and decreased \$4,081,014 during 2020.

Gross and net patient service revenue for the past three years ended December 31 are analyzed as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Inpatient services	\$ 97,715,008	\$ 106,038,574	\$ 75,974,865
Outpatient services	112,662,486	99,363,463	90,373,730
Physician services	<u>21,399,431</u>	<u>19,994,905</u>	<u>16,487,981</u>
Gross patient service revenue	231,776,925	225,396,942	182,836,576
Contractual adjustments	(140,222,391)	(128,652,636)	(108,183,552)
Provision for bad debts	(15,859,806)	(14,656,307)	(10,667,272)
Charity care	<u>(1,952,649)</u>	<u>(1,963,689)</u>	<u>(1,808,945)</u>
Net patient service revenue	<u>\$ 73,742,079</u>	<u>\$ 80,124,310</u>	<u>\$ 62,176,807</u>

The Medical Center raised all rates 4.0 percent in January 2021. The Medical Center made targeted rate increases in January 2019 and in January 2020.

Total inpatient days decreased 14.5 percent and total outpatient registrations increased by 10.5 percent during 2021. Total inpatient days increased by 5.6 percent and total outpatient registrations decreased by 5.6 percent during 2020. These changes to inpatient and outpatient volume in 2021 and 2020 were directly related to the coronavirus pandemic.

Southwest Medical Center
Management's Discussion and Analysis - Continued
Years ended December 31, 2021 and 2020

During 2020, one surgeon began practice in January, a dermatologist began practice in April, a pediatrician began practice in November, and a nurse practitioner began practice in April.

The Medical Center has agreements with various third-party payors that provide for payments to the Medical Center at amounts different from its established charge rates. These differences are referred to as contractual adjustments. When expressed as a percentage of gross patient service revenue, the Medical Center's contractual adjustments are comparable to median values for similar hospitals.

The Medical Center provides care free of charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charity care decreased 0.6 percent during 2021 and decreased 14.6 percent during 2020. Together, the provision for bad debts and charity care represented 7.7 percent, 7.4 percent, and 7.1 percent of gross patient service revenue during 2021, 2020, and 2019, respectively.

Employee salaries and wages decreased by \$825,564 or 2.4 percent during 2021 and increased by \$5,708,791 or 19.8 percent during 2020. These changes are functions of changes in the number of employees, pay rates, and coronavirus relief compensation. Average pay rates increased by 9 percent and 4 percent during 2021 and 2020, respectively. Total full-time equivalent employees decreased by 38 or 8 percent during 2021 after increasing by 22 or 5 percent during 2020. The changes in employees during 2021 is primarily due to staffing challenges and 2020 is primarily due to changes in patient volume.

The cost of employee benefits excluding the pension adjustment was 23 percent and 24 percent of salaries and wages during 2021 and 2020, respectively. Employee benefit expenses excluding the pension adjustment decreased \$538,755 during 2021 and increased \$825,497 during 2020. The decrease in 2021 is primarily due to the decrease in FTEs. The increase in 2020 is primarily due to the increase in FTEs.

Supplies and other expenses increased by \$460,649 or 1.5 percent during 2021 and increased by \$4,637,647 or 17.7 percent during 2020. The increase in 2021 was consistent with changes in patient volumes experienced by the Medical Center combined with the general rate of health care inflation and the continued need to use contract labor. The increase in 2020 was primarily due to an increase in inpatient volume brought on by the COVID-19 pandemic. The Medical Center had to use contract labor to handle the additional volume and experienced an increase in supply costs for personal protective equipment and pharmaceuticals to treat coronavirus.

The Foundation's operating results and changes in net assets for each of its last three fiscal years ended June 30 are summarized as follows:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Contributions	\$ 100	\$ 5,100	\$ 233,689
Investment income, net	1,183,353	4,208	384,728
Other income	81,672	70,107	49,633
Expenses	<u>(304,809)</u>	<u>(296,315)</u>	<u>(528,665)</u>
Change in net assets	<u>\$ 960,316</u>	<u>\$ (216,900)</u>	<u>\$ 139,385</u>

Unrealized gains and losses are included in the investment income category on the Foundation's financial statements. The Foundation's investment income included net realized and unrealized gains of \$1,073,320 in the year ended June 30, 2021, net realized and unrealized losses of \$118,712 and net realized and unrealized gains of \$266,929 for the years ended June 30, 2020 and 2019. These results followed changes in the broad market indices during those years.

Independent Auditor's Report

Board of Trustees
Southwest Medical Center

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Southwest Medical Center (Medical Center) as of and for the years ended December 31, 2021 and 2020, the discretely presented component unit as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Medical Center as of December 31, 2021 and 2020, the respective financial position of the discretely presented component unit of the Medical Center as of June 30, 2021 and 2020, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Kansas Municipal Audit and Accounting Guide. The financial statements of Southwest Medical Center Foundation, the discretely presented component unit, for the years ended June 30, 2021 and 2020, were not audited in accordance with *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Medical Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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 for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Kansas Municipal Audit and Accounting Guide will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Medical Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5 be presented to supplement the basic financial statements. These standards also require that the pension information listed in the table of contents be included to supplement the basic financial statements. Such information is the responsibility of management and, 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. 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 audit 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Medical Center's basic financial statements. The accompanying information on pages 40 through 43 and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and

relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information on pages 40 through 43 and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole, except that no opinion is expressed as to the adequacy of insurance coverage.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2022, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Wendling Noe Nelson: Johnson LLC

Topeka, Kansas
August 10, 2022

Financial Statements

**Southwest Medical Center
Statements of Net Position
December 31,**

Assets and Deferred Outflows of Resources

	<u>2021</u>	<u>2020</u>
Current assets		
Cash and cash equivalents	\$ 17,104,321	\$ 17,221,468
Assets limited as to use	403,035	468,370
Patient accounts receivable, net of allowance for uncollectible accounts of \$6,683,769 in 2021 and \$6,596,902 in 2020	18,234,606	19,494,085
Other receivables	49,065	54,959
Estimated third-party payor settlements	22,962	22,962
Inventories	1,945,784	2,180,455
Prepaid expenses	<u>2,644,557</u>	<u>2,524,820</u>
Total current assets	<u>40,404,330</u>	<u>41,967,119</u>
Assets limited as to use		
Internally designated	30,859,445	30,864,309
Under indenture agreements - held by trustee	1,392,185	1,660,779
By contributors and grantors for capital acquisitions	<u>1,904,538</u>	<u>1,652,788</u>
	34,156,168	34,177,876
Less amounts required to meet current obligations	<u>403,035</u>	<u>468,370</u>
	<u>33,753,133</u>	<u>33,709,506</u>
Capital assets - net	<u>24,119,868</u>	<u>24,200,472</u>
Total assets	<u>98,277,331</u>	<u>99,877,097</u>
Deferred outflows of resources		
Pension	8,657,718	7,842,350
Advance refunding	<u>745,903</u>	<u>819,068</u>
Total deferred outflows of resources	<u>9,403,621</u>	<u>8,661,418</u>
Total assets and deferred outflows of resources	<u><u>\$ 107,680,952</u></u>	<u><u>\$ 108,538,515</u></u>

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2021</u>	<u>2020</u>
Current liabilities		
Current maturities of bonds payable	\$ 565,000	\$ 515,000
Current portion of SBA PPP loan payable		3,131,844
Accounts payable	2,129,155	2,211,305
Estimated third-party payor settlements	254,062	423,955
Unearned COVID-19 revenue	297,838	10,407,466
Other accrued liabilities	84,151	48,247
Accrued salaries and benefits	2,437,715	1,439,798
Accrued compensated absences	995,776	950,298
Accrued interest payable	<u>166,436</u>	<u>219,295</u>
Total current liabilities	6,930,133	19,347,208
Bonds payable, less current maturities	13,139,712	14,281,603
SBA PPP loan payable, excluding current portion		1,597,556
Net pension liability	<u>18,062,893</u>	<u>22,923,725</u>
Total liabilities	<u>38,132,738</u>	<u>58,150,092</u>
Deferred inflows of resources		
Pension	6,577,636	294,713
Advance refunding	<u>100,371</u>	
Total deferred inflows of resources	<u>6,678,007</u>	<u>294,713</u>
Net position		
Invested in capital assets - net of related debt	11,060,688	10,222,938
Restricted		
For debt service	1,392,185	1,573,567
Expendable for capital acquisitions	1,904,538	1,739,999
Unrestricted	<u>48,512,796</u>	<u>36,557,206</u>
Total net position	<u>62,870,207</u>	<u>50,093,710</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$107,680,952</u>	<u>\$108,538,515</u>

Southwest Medical Center
Statements of Financial Position - Discretely Presented Component Unit
Southwest Medical Center Foundation
June 30,

Assets

	<u>2021</u>	<u>2020</u>
Current assets		
Cash	\$ 276,593	\$ 249,031
Certificates of deposit	400,000	400,000
Short-term investments	5,901,502	4,969,655
Prepaid expenses	<u>1,814</u>	<u>1,683</u>
Total current assets	<u>6,579,909</u>	<u>5,620,369</u>
Capital assets - net	<u>435,505</u>	<u>441,994</u>
Other assets		
Endowment investments	670,536	668,031
Other investments	<u>70,444</u>	<u>70,444</u>
Total other assets	<u>740,980</u>	<u>738,475</u>
Total assets	<u><u>\$ 7,756,394</u></u>	<u><u>\$ 6,800,838</u></u>

Liabilities and Net Assets

Accrued taxes and other liabilities	<u>\$ 11,617</u>	<u>\$ 16,377</u>
Net assets		
Without donor restrictions	<u>6,444,518</u>	<u>5,612,537</u>
With donor restrictions		
Purpose restricted	629,723	503,893
Perpetual in nature	<u>670,536</u>	<u>668,031</u>
Total with donor restrictions	<u>1,300,259</u>	<u>1,171,924</u>
Total net assets	<u>7,744,777</u>	<u>6,784,461</u>
Total liabilities and net assets	<u><u>\$ 7,756,394</u></u>	<u><u>\$ 6,800,838</u></u>

The accompanying notes are an integral part of these statements.

Southwest Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Year ended December 31,

	<u>2021</u>	<u>2020</u>
Operating revenues		
Net patient service revenue	\$ 73,742,079	\$ 80,124,310
Other	<u>414,103</u>	<u>554,099</u>
Total operating revenues	<u>74,156,182</u>	<u>80,678,409</u>
Operating expenses		
Salaries and wages	33,701,421	34,526,985
Employee benefits	7,755,048	8,293,803
Actuarial adjustment to pension expense	606,723	1,321,754
Supplies and other	31,280,510	30,819,861
Depreciation and amortization	<u>3,360,773</u>	<u>2,963,012</u>
Total operating expenses	<u>76,704,475</u>	<u>77,925,415</u>
Operating income (loss)	<u>(2,548,293)</u>	<u>2,752,994</u>
Nonoperating revenues (expenses)		
Investment income	106,452	197,794
Interest expense	(544,647)	(568,062)
Gain on disposal of fixed assets	311,240	30,937
SBA PPP loan forgiveness	4,729,400	
Noncapital COVID-19 grants	10,154,822	
Noncapital grants and contributions	<u>50,265</u>	<u>182,060</u>
Total nonoperating expenses	<u>14,807,532</u>	<u>(157,271)</u>
Excess of revenues over expenses before capital grants and contributions	12,259,239	2,595,723
Capital COVID-19 grants	317,258	
Capital grants and contributions	<u>200,000</u>	<u>437,347</u>
Change in net position	12,776,497	3,033,070
Net position at beginning of year	<u>50,093,710</u>	<u>47,060,640</u>
Net position at end of year	<u>\$ 62,870,207</u>	<u>\$ 50,093,710</u>

The accompanying notes are an integral part of these statements.

Southwest Medical Center
Statements of Activities - Discretely Presented Component Unit
Southwest Medical Center Foundation
Year ended June 30,

	<u>2021</u>	<u>2020</u>
Changes in net assets without donor restrictions		
Revenues, gains, and other support		
Contributions	\$ 100	\$ 5,100
Oil and gas revenue, net	16,164	14,280
Farm revenue, net	65,508	55,827
Investment return, net	1,019,468	
Net assets released from restrictions	<u>35,550</u>	<u>70,000</u>
Total revenues, gains, and other support	<u>1,136,790</u>	<u>145,207</u>
Expenses and losses		
Program services	280,675	270,000
Management and general	24,134	26,315
Investment return, net	<u></u>	<u>18,388</u>
Total expenses and losses	<u>304,809</u>	<u>314,703</u>
Change in net assets without donor restrictions	<u>831,981</u>	<u>(169,496)</u>
Changes in net assets with donor restrictions		
Investment return, net	163,885	22,596
Net assets released from restrictions	<u>(35,550)</u>	<u>(70,000)</u>
Change in net assets with donor restrictions	<u>128,335</u>	<u>(47,404)</u>
Change in net assets	960,316	(216,900)
Net assets at beginning of year	<u>6,784,461</u>	<u>7,001,361</u>
Net assets at end of year	<u><u>\$ 7,744,777</u></u>	<u><u>\$ 6,784,461</u></u>

The accompanying notes are an integral part of these statements.

**Southwest Medical Center
Statements of Cash Flows
Year ended December 31,**

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 74,831,665	\$ 74,538,847
Payments to or on behalf of employees	(40,565,502)	(43,471,030)
Payments for supplies and services	(31,084,394)	(31,248,505)
Other receipts and payments	444,997	645,930
	<u>3,626,766</u>	<u>465,242</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities		
Noncapital grants and contributions	50,265	182,060
Proceeds from SBA PPP loan payable		4,729,400
COVID-19 noncapital grants received	338,278	10,114,382
	<u>388,543</u>	<u>15,025,842</u>
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities		
Acquisition of capital assets	(3,280,169)	(3,177,534)
Insurance proceeds for capital assets	311,240	
Issuance of long-term obligations	4,833,153	
Principal payments on long-term obligations	(520,000)	(495,000)
Payment to extinguish debt	(5,251,483)	
Payment of bond issuance costs	(84,965)	
Interest paid	(492,566)	(547,875)
Capital grants and contributions	200,000	437,347
COVID-19 capital grants received	24,174	293,084
	<u>(4,260,616)</u>	<u>(3,489,978)</u>
Net cash used by capital and related financing activities		
Cash flows from investing activities		
Change in assets limited as to use	268,594	19,215
Investment income received	106,142	197,972
	<u>374,736</u>	<u>217,187</u>
Net cash provided by investing activities		
Net change in cash and cash equivalents	129,429	12,218,293
Cash and cash equivalents at beginning of year	42,236,173	30,017,880
Cash and cash equivalents at end of year	<u>\$ 42,365,602</u>	<u>\$ 42,236,173</u>

Southwest Medical Center
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2021</u>	<u>2020</u>
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	\$ 17,104,321	\$ 17,221,468
Cash included in assets limited as to use		
Internally designated	23,356,743	23,361,917
By contributors and grantors for capital acquisitions	<u>1,904,538</u>	<u>1,652,788</u>
Total cash and cash equivalents	<u><u>\$ 42,365,602</u></u>	<u><u>\$ 42,236,173</u></u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (2,548,293)	\$ 2,752,994
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation and amortization	3,360,773	2,963,012
Provision for bad debts	15,859,806	14,656,307
Physician advance made	(25,000)	(50,598)
Changes in		
Accounts receivable	(14,600,327)	(20,610,244)
Other receivables	30,894	91,831
Inventories and prepaid expenses	114,934	(648,376)
Accounts payable and accrued expenses	997,149	(379,912)
Estimated third-party payor settlements	(169,893)	368,474
Net pension liability, deferred inflows, and deferred outflows related to defined benefit pension plan	<u>606,723</u>	<u>1,321,754</u>
Net cash provided by operating activities	<u><u>\$ 3,626,766</u></u>	<u><u>\$ 465,242</u></u>

The accompanying notes are an integral part of these statements.

Southwest Medical Center
Statements of Cash Flows - Discretely Presented Component Unit
Southwest Medical Center Foundation
Year ended June 30,

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 960,316	\$ (216,900)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	6,489	6,489
Net realized and unrealized gain/losses on investments	(1,073,319)	118,720
Investment returns restricted for endowment	(2,505)	(1,576)
Changes in		
Prepaid expenses	(131)	(19)
Other investments		1,866
Accrued liabilities	<u>(4,760)</u>	<u>(4,321)</u>
Net cash used by operating activities	<u>(113,910)</u>	<u>(95,741)</u>
Cash flows from investing activities		
Proceeds from sales of investments	3,983,684	9,005,635
Purchase of investments	<u>(3,842,212)</u>	<u>(8,941,674)</u>
Net cash provided by investing activities	<u>141,472</u>	<u>63,961</u>
Net change in cash and cash equivalents	27,562	(31,780)
Cash and cash equivalents at beginning of year	<u>249,031</u>	<u>280,811</u>
Cash and cash equivalents at end of year	<u><u>\$ 276,593</u></u>	<u><u>\$ 249,031</u></u>

The accompanying notes are an integral part of these statements.

Southwest Medical Center
Notes to Financial Statements
December 31, 2021 and 2020

Note A - Description of Reporting Entity and Summary of Significant Accounting Policies

The financial statements of Southwest Medical Center (the Medical Center), a component unit of Seward County, Kansas, have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental account and financial reporting principles. The significant accounting and reporting policies and practices used by the Medical Center are described below.

1. Reporting entity

Southwest Medical Center is located in Liberal, Kansas, and is owned by Seward County, Kansas (the County), and governed by a seven-member Board of Trustees appointed by the Board of County Commissioners of the County. The Medical Center is a 101-bed, not-for-profit general hospital. The Medical Center can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Medical Center is a component unit of the County.

For financial reporting purposes, the Medical Center has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Medical Center are such that the exclusion would cause the Medical Center's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Medical Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Medical Center.

2. Discretely presented component unit

Southwest Medical Center Foundation, Inc. (the Foundation), is a not-for-profit corporation formed in August of 1980 to receive, invest, and disburse funds received for the benefit, support, and maintenance of the Medical Center. The Foundation is a legally separate component unit of the Medical Center. The Foundation is administered by a Board of Trustees. Three of the seven members of that Board are also members of the Medical Center's Board of Trustees. Although the Medical Center does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the Medical Center by the donors or are provided to the Medical Center for its programs. Because the majority of resources held by the Foundation can only be used by, or for the benefit of, the Medical Center and for the benefit of patients served by the Medical Center, the Foundation is considered a component unit of the Medical Center and is discretely presented in the Medical Center's financial statements. The Foundation's financial statements are presented on a June 30 year-end basis.

3. Use of estimates

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

4. Basis of presentation

The Medical Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

The Foundation reports under the Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Medical Center's reporting entity for these differences.

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note A - Description of Reporting Entity and Summary of Significant Accounting Policies - Continued

5. Cash and cash equivalents

The Medical Center considers all cash and invested cash to be cash equivalents, excluding certificates of deposit with original maturities of more than three months, assets limited as to use under bond indenture agreements held by trustee, and items classified as investments by the Foundation.

6. Allowance for uncollectible accounts

The Medical Center provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Medical Center estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

7. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

8. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

9. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may at its discretion subsequently use for other purposes; assets held by a trustee under indenture agreements; and assets restricted by contributors and grantors for capital acquisitions. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

10. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

11. Costs of borrowing

Original issue premiums and discounts and deferred outflows and deferred inflows on advance refunding associated with issuance of long-term debt are amortized using the interest method over the term of the related debt.

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note A - Description of Reporting Entity and Summary of Significant Accounting Policies - Continued

12. Estimated health insurance claims payable

The Medical Center is self-insured for health insurance claims of its employees. Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. These estimates are based on known claims and historical claims experience.

Management believes that estimates for health insurance claims payable are reasonable. However, it is possible that actual incurred claims expense may vary significantly from the estimate included in the accompanying financial statements.

13. Deferred outflows of resources and deferred inflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

14. Pension plan

The Medical Center participates in the Kansas Public Employees Retirement System (KPERs), a cost sharing multiple employer defined benefit pension plan. The Medical Center uses information provided by KPERs to measure the net pension liability, deferred outflows of resources, and deferred inflows of resources of the KPERs pension plan.

15. Net position

The net position of the Medical Center is classified into four components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted expendable net position" is the noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by indenture agreements. "Restricted nonexpendable net position" equals the principal portion of permanent endowments. "Unrestricted net position" is the remaining net position that does not meet the definitions of the other three components of net position.

16. Operating revenues and expenses

The Medical Center's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Medical Center's principal activity. Nonexchange revenues, including noncapital grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

17. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note A - Description of Reporting Entity and Summary of Significant Accounting Policies - Continued

18. Charity care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

19. Grants and contributions

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

20. Income taxes

The Medical Center is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code. Management is not aware of any uncertainties in income tax positions. Tax years ending on and before December 31, 2017, are not subject to examination by taxing authorities.

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. Management is not aware of any uncertainties in income tax positions. Tax years ending on and before June 30, 2017, are not subject to examination by taxing authorities.

21. Subsequent events

The Medical Center has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

22. Reclassification

Certain reclassifications have been made to the 2020 statement of cash flows to conform to the 2021 presentation. The reclassifications had no effect on the change in net position.

Note B - Reimbursement Programs

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Inpatient skilled nursing services are paid at prospectively determined per diem rates. Outpatient services are paid at prospectively determined rates per occasion of service. Physician services rendered to Medicare beneficiaries are paid based on a prospectively determined fee schedule.

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note B - Reimbursement Programs - Continued

Prospectively determined rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The Medical Center is paid for cost reimbursable and other items at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare administrative contractor. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 30, 2017.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

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

A summary of gross and net patient service revenue for the years ended December 31, 2021 and 2020, follows:

	<u>2021</u>	<u>2020</u>
Gross patient service revenue	\$ 231,776,925	\$ 225,396,942
Contractual adjustments	(140,222,391)	(128,652,636)
Provision for bad debts	(15,859,806)	(14,656,307)
Charity care	<u>(1,952,649)</u>	<u>(1,963,689)</u>
Net patient service revenue	<u>\$ 73,742,079</u>	<u>\$ 80,124,310</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 23 percent and 6 percent, respectively, of the Medical Center's net patient service revenue during 2021, and 22 percent and 4 percent, respectively, of the Medical Center's net patient service revenue during 2020. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note C - Deposits with Financial Institutions

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 Medical Center's deposit policy of custodial credit risk requires compliance with the provisions of state law.

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note C - Deposits with Financial Institutions - Continued

Kansas statutes authorize the Medical Center, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair market value equal to 100 percent of the uninsured amounts and must be assigned for the benefit of the Medical Center.

At December 31, 2021, the carrying amount of the Medical Center's bank deposits, including certificates of deposit, was \$49,857,978 and the bank balances were \$51,002,287. Of the bank balances, \$750,000 was covered by federal depository insurance, and \$50,252,287 was covered by collateral held by a third-party bank, but not registered in the Medical Center's name.

The Medical Center's bank deposits are included in the financial statements under the following categories:

Cash and cash equivalents	\$ 17,096,697
Assets limited as to use	
Internally designated	30,856,743
By contributors and grantors for capital acquisitions	<u>1,904,538</u>
Total bank deposits	<u>\$ 49,857,978</u>

Note D - Investments

The Foundation's investments are stated at fair value. The composition of its short-term and endowment investments as of June 30, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Equity securities	\$ 6,414,350	\$ 5,479,636
Fixed income securities	<u>157,688</u>	<u>158,050</u>
	<u>\$ 6,572,038</u>	<u>\$ 5,637,686</u>

The Foundation's investment return is summarized as follows:

	<u>2021</u>	<u>2020</u>
Interest and dividends including capital gains	\$ 164,134	\$ 172,091
Realized gains	340,930	123,542
Unrealized gains and losses	732,389	(242,262)
Investment fees and taxes	<u>(54,100)</u>	<u>(49,163)</u>
	<u>\$ 1,183,353</u>	<u>\$ 4,208</u>

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note E - Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined according to a hierarchy that gives highest priority to use of observable inputs and lowest priority to use of unobservable inputs. These inputs are described as follows:

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable, supported by little or no market activity, and are significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used by the Foundation for assets measured at fair value on a recurring basis:

Mutual funds, common stocks, and exchange-traded funds are valued at unadjusted quoted prices for identical securities in active markets.

Fixed income securities are valued at prices provided by an independent pricing service.

The following tables set forth, by level, the Foundation's assets measured at fair value on a recurring basis:

	June 30, 2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 1,160,585	\$ -	\$ -	\$ 1,160,585
Stocks and exchange traded funds	5,253,765			5,253,765
Fixed income securities		<u>157,688</u>		<u>157,688</u>
	<u>\$ 6,414,350</u>	<u>\$ 157,688</u>	<u>\$ -</u>	<u>\$ 6,572,038</u>
	June 30, 2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 1,050,784	\$ -	\$ -	\$ 1,050,784
Stocks and exchange traded funds	4,428,852			4,428,852
Fixed income securities		<u>158,050</u>		<u>158,050</u>
	<u>\$ 5,479,636</u>	<u>\$ 158,050</u>	<u>\$ -</u>	<u>\$ 5,637,686</u>

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note F - Assets Limited as to Use

The composition of assets limited as to use as of December 31, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Internally designated		
Cash	\$ 23,356,743	\$ 23,361,917
Certificates of deposit	7,500,000	7,500,000
Accrued interest receivable	<u>2,702</u>	<u>2,392</u>
	<u>\$ 30,859,445</u>	<u>\$ 30,864,309</u>
Under indenture agreements held by trustee		
Cash	\$ 15,000	\$ 15,000
Government obligation money market funds	<u>1,377,185</u>	<u>1,645,779</u>
	<u>\$ 1,392,185</u>	<u>\$ 1,660,779</u>
By contributors and grantors for capital acquisitions		
Cash	<u>\$ 1,904,538</u>	<u>\$ 1,652,788</u>

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note G - Capital Assets

Capital asset additions, retirements, and balances for the Medical Center as of December 31, 2021 and 2020, are as follows:

	2021			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land improvements	\$ 2,270,127	\$ -	\$ -	\$ 2,270,127
Buildings and fixed equipment	27,479,905	336,878		27,816,783
Major movable equipment	17,448,987	4,458,948		21,907,935
Total capital assets being depreciated	47,199,019	4,795,826	-	51,994,845
Less accumulated depreciation and amortization				
Land improvements	870,868	108,415		979,283
Buildings and fixed equipment	12,929,608	1,249,289		14,178,897
Major movable equipment	11,617,009	2,003,069		13,620,078
Total accumulated depreciation and amortization	25,417,485	3,360,773	-	28,778,258
Total capital assets being depreciated, net	21,781,534	1,435,053	-	23,216,587
Land	104,046			104,046
Construction in progress	2,314,892	(1,515,657)		799,235
Total capital assets not being depreciated	2,418,938	(1,515,657)	-	903,281
Capital assets, net	<u>\$ 24,200,472</u>	<u>\$ (80,604)</u>	<u>\$ -</u>	<u>\$ 24,119,868</u>
	2020			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land improvements	\$ 3,043,963	\$ 63,679	\$ 837,515	\$ 2,270,127
Buildings and fixed equipment	46,075,361	266,924	18,862,380	27,479,905
Major movable equipment	38,134,174	1,569,986	22,255,173	17,448,987
Total capital assets being depreciated	87,253,498	1,900,589	41,955,068	47,199,019
Less accumulated depreciation and amortization				
Land improvements	1,600,500	107,883	837,515	870,868
Buildings and fixed equipment	30,416,394	1,404,158	18,890,944	12,929,608
Major movable equipment	32,423,584	1,450,971	22,257,546	11,617,009
Total accumulated depreciation and amortization	64,440,478	2,963,012	41,986,005	25,417,485
Total capital assets being depreciated, net	22,813,020	(1,062,423)	(30,937)	21,781,534
Land	104,046			104,046
Construction in progress	1,045,674	1,269,218		2,314,892
Total capital assets not being depreciated	1,149,720	1,269,218	-	2,418,938
Capital assets, net	<u>\$ 23,962,740</u>	<u>\$ 206,795</u>	<u>\$ (30,937)</u>	<u>\$ 24,200,472</u>

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note G - Capital Assets - Continued

Construction in progress at December 31, 2021 and 2020, consisted mainly of costs incurred for roof repairs and various items of equipment and software upgrades.

Capital asset additions, retirements, and balances for the Foundation as of June 30, 2021 and 2020, are as follows:

	2021			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Farm land improvements	\$ 172,636	\$ -	\$ -	\$ 172,636
Major movable equipment	2,079		(2,079)	-
Total capital assets being depreciated	174,715	-	(2,079)	172,636
Less accumulated depreciation and amortization	107,247	6,489	(2,079)	111,657
Total capital assets being depreciated, net	67,468	(6,489)	-	60,979
Capital assets not being depreciated				
Land	374,526			374,526
Capital assets, net	<u>\$ 441,994</u>	<u>\$ (6,489)</u>	<u>\$ -</u>	<u>\$ 435,505</u>

	2020			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Farm land improvements	\$ 172,636	\$ -	\$ -	\$ 172,636
Major movable equipment	2,079			2,079
Total capital assets being depreciated	174,715	-	-	174,715
Less accumulated depreciation and amortization	100,758	6,489		107,247
Total capital assets being depreciated, net	73,957	(6,489)	-	67,468
Capital assets not being depreciated				
Land	374,526			374,526
Capital assets, net	<u>\$ 448,483</u>	<u>\$ (6,489)</u>	<u>\$ -</u>	<u>\$ 441,994</u>

Note H - Unearned COVID-19 Revenue

Unearned revenue consists of federal financial assistance through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act and subsequent legislation. The Medical Center received the United States Department of Health and Human Services (HHS) provider relief funds to be used to prevent, prepare for, and respond to coronavirus and to reimburse the Medical Center for health care related expenses and lost revenues as defined by HHS, that are attributable to coronavirus (COVID-19). The Medical Center also received skilled nursing facility infection control and incentive payments to be used to support coronavirus testing and related expenses in the skilled nursing facility, SPARK (Strengthening People and Revitalizing Kansas) grants from the Kansas Department of Health and Environment, and Coronavirus Relief Funds (CRF) from Seward County, Kansas, to respond to coronavirus. As a condition to receiving

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note H - Unearned COVID-19 Revenue - Continued

these distributions, the Medical Center must agree to the terms and conditions of the funds. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as unearned revenues until such time the eligibility requirements have been met.

The Medical Center had determined that the eligibility requirements for lost revenues and allowable expenditures have been met for \$10,472,080 of HHS provider relief funds, SPARK, and CRF for the year ended December 31, 2021. These amounts have, therefore, been recognized as nonoperating revenues and grants used for capital purchases in the financial statements during the year ended December 31, 2021. The terms and conditions of the programs are complex and are subject to interpretation and evolving guidance. As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term.

The following table provides information about significant changes in unearned COVID-19 revenue for the years ended December 31:

Unearned COVID-19 revenue at beginning of year	\$ 10,407,466	\$ -
HHS Provider relief funds received		10,368,910
HHS Skilled nursing facility infection control and incentive payments received		38,556
SPARK and CRF funds received	362,452	
Noncapital COVID-19 grants recognized	(10,154,822)	
Capital related COVID-19 grants recognized	(317,258)	
	<u>297,838</u>	<u>10,407,466</u>
Unearned COVID-19 revenue at December 31, 2021	<u>\$ 297,838</u>	<u>\$ 10,407,466</u>

Note I - Bonds Payable and SBA PPP Loan Payable

Bonds payable as of December 31, 2021 and 2020, are summarized as follows:

	<u>2021</u>	<u>2020</u>
2.0% to 5.0% General Obligation Hospital Refunding and Improvement Bonds, Series 2010-A; issued on May 27, 2010, in the original amount of \$17,670,000	\$ -	\$ 5,250,000
2.0% to 4.0% General Obligation Hospital Refunding Bonds, Series 2016; issued on March 30, 2016, in the original amount of \$9,480,000, due serially through August 1, 2038	9,045,000	9,125,000
2.0% to 3.0% General Obligation Hospital Refunding Bonds, Series 2021; issued on March 31, 2021, in the original amount of \$4,650,000, due serially through August 1, 2039	<u>4,210,000</u>	
	13,255,000	14,375,000
Add net unamortized premium on bonds	449,712	421,603
Less current maturities	<u>565,000</u>	<u>515,000</u>
	<u>\$ 13,139,712</u>	<u>\$ 14,281,603</u>

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note I - Bonds Payable and SBA PPP Loan Payable - Continued

On May 27, 2010, the County issued \$17,670,000 in General Obligation Hospital Refunding and Improvement Bonds, Series 2010-A, (the 2010-A bonds) on behalf of the Medical Center. The proceeds of the 2010-A bonds were used, together with other available funds of the Medical Center, for the purpose of providing funds to (1) expand and renovate the Medical Center's existing facilities, (2) pay for the costs of certain items of equipment, (3) fund a debt service reserve fund, (4) pay certain costs related to issuance of the bonds, and (5) make the payment as scheduled on August 1, 2010, for principal and interest due then on the 2001-A bonds.

On March 30, 2016, the County issued \$9,480,000 in General Obligation Hospital Refunding Bonds, Series 2016, (the 2016 bonds) on behalf of the Medical Center. The proceeds of the 2016 bonds were used to (1) pay the costs related to issuance of the 2016 bonds, and (2) advance refund \$8,335,000 of the 2010-A bonds maturing during the years from 2026 through 2038 by making an irrevocable deposit with a trustee. The trustee used that deposit to purchase direct obligations of the United States of America that matured and paid interest in amounts and at times that provided for payment of interest on the refunded 2010-A bonds through August 1, 2020, and to redeem and pay the \$8,335,000 of refunded 2010-A bonds on that date at a redemption price of 100 percent. As a result of the refunding transaction, a deferred refunding loss of \$1,171,337 was recognized for the difference between the book value of the refunded debt and the amount required to extinguish the debt. This deferred loss is reported as a deferred outflow of resources on the statement of net position and is being amortized to interest expense over the life of the 2016 bonds.

On March 31, 2021, the County issued \$4,650,000 in General Obligation Hospital Refunding Bonds, Series 2021, (the 2021 bonds) on behalf of the Medical Center. The proceeds of the 2021 bonds along with existing debt reserve funds were used to (1) pay the costs related to issuance of the 2021 bonds, and (2) refund \$5,250,000 of the 2010-A bonds maturing during the years from 2021 through 2040. The refunding transaction decreased the total amount of future debt service requirements by \$1,940,076. This resulted in an economic gain of \$1,480,020. As a result of the refunding transaction, a deferred refunding gain of \$109,005 was recognized for the difference between the book value of the refunded debt and the amount required to extinguish the debt. This deferred gain is reported as a deferred inflow of resources on the statement of net position and is being amortized to interest expense over the life of the 2021 bonds.

The indenture agreements for the bonds require the Medical Center to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The indenture agreements also include certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, and level of fees and rates charged.

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note I - Bonds Payable and SBA PPP Loan Payable - Continued

Scheduled annual debt service requirements on bonds payable as of December 31, 2021 and 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 565,000	\$ 402,950	\$ 967,950
2023	580,000	386,000	966,000
2024	600,000	368,600	968,600
2025	615,000	350,600	965,600
2026	635,000	332,150	967,150
2027 - 2031	3,475,000	1,370,550	4,845,550
2032 - 2036	4,020,000	820,175	4,840,175
2037 - 2039	<u>2,765,000</u>	<u>142,100</u>	<u>2,907,100</u>
	<u>\$ 13,255,000</u>	<u>\$ 4,173,125</u>	<u>\$ 17,428,125</u>

The SBA PPP loan payable as of December 31, 2021 and 2020, is summarized as follows:

	<u>2021</u>	<u>2020</u>
Small Business Administration (SBA) Paycheck Protection Program Loan dated April 29, 2020, in the original amount of \$4,729,400, 24-month term, current rate 1.00%, subject to SBA loan forgiveness application, uncollateralized. Forgiven by the SBA in May 2021.	\$ -	\$ 4,729,400
	-	4,729,400
Less current portion of SBA PPP loan payable	<u> </u>	<u>3,131,844</u>
SBA PPP loan payable, excluding current portion	<u>\$ -</u>	<u>\$ 1,597,556</u>

On April 29, 2020, the Medical Center was granted a \$4,729,400 loan under the Payment Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The Medical Center received loan forgiveness of the entire loan amount plus accrued loan interest of \$50,578 on May 21, 2021, and has recognized this forgiveness as nonoperating revenues.

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note I - Bonds Payable and SBA PPP Loan Payable - Continued

The following is a summary of changes in long-term obligations:

	<u>SBA PPP loan payable</u>	<u>Bonds</u>	<u>Total long-term obligations</u>
Outstanding at January 1, 2020	\$ -	\$ 14,870,000	\$ 14,870,000
Obligations Incurred	4,729,400		4,729,400
Principal payments	<u> </u>	<u>(495,000)</u>	<u>(495,000)</u>
Outstanding at January 1, 2021	4,729,400	14,375,000	19,104,400
Obligations incurred		4,650,000	4,650,000
Loan forgiveness	(4,729,400)		(4,729,400)
Principal payments	<u> </u>	<u>(5,770,000)</u>	<u>(5,770,000)</u>
Outstanding at December 31, 2021	<u>\$ -</u>	<u>\$ 13,255,000</u>	<u>\$ 13,255,000</u>

Total interest costs are summarized as follows:

	<u>2021</u>	<u>2020</u>
Total interest incurred	\$ 439,706	\$ 532,380
Amortization of bond premium	(44,556)	(37,484)
Amortization of deferred outflows and inflows on advance refunding	64,532	73,166
Payment of bond issuance costs	<u>84,965</u>	<u> </u>
Interest expense	<u>\$ 544,647</u>	<u>\$ 568,062</u>

Note J - Defined Benefit Pension Plan

Plan description

The Medical Center participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, etc. seq. Substantially all employees of the Medical Center are eligible to participate in KPERs. KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. Substantially all public employees in Kansas are covered by KPERs. Participation by local political subdivisions and entities is optional, but irrevocable once elected. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869) or by calling 1-888-275-5737.

Benefits

Benefits are established by statute and may only be changed by the Kansas Legislature. Members with ten or more years of credited service may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points."

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note J - Defined Benefit Pension Plan - Continued

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement, a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions

Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of an annual actuarial valuation for each of the three state-wide pension groups. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

KPERS has three benefit structures and funding depends on whether the employee is a Tier 1, Tier 2, or Tier 3 member. Tier 1 members were hired before July 1, 2009, Tier 2 members were first employed on or after July 1, 2009, and Tier 3 members were first employed on or after January 1, 2015. Kansas law established the KPERS member-employee contribution rate at 6 percent of covered salary for all members for 2021 and 2020. The employer rates established by statute at December 31, 2021 and 2020, are 8.87 percent and 8.61 percent, respectively. The Medical Center employer contributions to KPERS for the years ended December 31, 2021 and 2020, were \$2,192,845 and \$2,573,717, respectively, equal to the statutory required contributions for each year.

Employer and nonemployer allocations

Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

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

To facilitate the separate (sub) actuarial valuations, the System maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The Medical Center is included in the local group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The allocation percentages for the Medical Center's share of the collective pension amounts as of December 31, 2021 and 2020, are based on the ratio of each employer's

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note J - Defined Benefit Pension Plan - Continued

contributions to total employer and nonemployer contributions of the group for the years ended June 30, 2021 and 2020, respectively. The contributions used exclude contributions made for prior service, excess benefits, and irregular payments. As of December 31, 2021, the Medical Center's proportion was 1.505 percent, which was an increase of .018 percent from its share at December 31, 2020.

Net pension liability

At December 31, 2021 and 2020, the Medical Center reported a liability of \$18,062,893 and \$22,923,725, respectively, for its proportionate share of the net pension liability.

Actuarial assumptions

The total pension liability was determined by actuarial valuations as of December 31, 2020 and 2019, which were then rolled forward to June 30, 2021 and 2020, using the following actuarial assumptions:

<u>Actuarial assumptions</u>	<u>2020</u>	<u>2019</u>
Price inflation	2.75%	2.75%
Salary increases, including wage increases	3.25% - 12.00%	3.25% - 11.75%
Long-term rate of return net of investment expense and including price inflation	7.25%	7.50%

For 2020 and 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. Future mortality improvements are anticipated using Scale MP-2016.

The actuarial assumptions used in the December 31, 2020 and 2019 valuations were based on the results of an actuarial experience study conducted for the three-year period ended December 31, 2018.

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. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2021, are summarized in the following table:

<u>Asset class</u>	<u>Long-term target allocation</u>	<u>Long-term expected real rate of return</u>
U.S. Equities	23.50 %	5.20 %
Non-U.S. Equities	23.50	6.40
Private equity	8.00	9.50
Private real estate	11.00	4.45
Yield driven	8.00	4.70
Real return	11.00	3.25
Fixed income	11.00	1.55
Short-term investments	4.00	0.25
Total	<u>100.00 %</u>	

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note J - Defined Benefit Pension Plan - Continued

Discount rate

The discount rates used to measure the total pension liability as of December 31, 2020 and 2019, were 7.25 percent and 7.50 percent, respectfully. The State, School, and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The statutory cap for the year ended June 30, 2021, was 1.2 percent.

Sensitivity of the net pension liability to changes in the discount rate

The following table presents the net pension liability of the pension plan as of June 30, 2021, calculated using the discount rate of 7.25 percent, as well as what the pension plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% decrease <u>(6.25%)</u>	Current discount rate <u>(7.25%)</u>	1% increase <u>(8.25%)</u>
Medical Center's share of net pension liability	\$ 29,711,705	\$ 18,062,893	\$ 8,293,888

Pension expense

For the years ended December 31, 2021 and 2020, the Medical Center recognized pension expense of \$3,131,510 and \$3,836,816, respectively, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Deferred outflows of resources and deferred inflows of resources

A summary of the collective deferred outflows of resources and deferred inflows of resources at December 31, 2021 and 2020, are included in the following tables. Experience gains/losses and the impact of changes in actuarial assumptions or other inputs, if any, are recognized over the average expected remaining service life of the active and inactive plan members at the beginning of the measurement period. Investment gains and losses are recognized over a fixed five-year period.

	<u>2021</u>	<u>2020</u>
Deferred outflows of resources		
Differences between expected and actual experience	\$ 712,984	\$ 382,757
Change of assumptions	3,555,702	1,380,769
Net difference between projected and actual earnings on pension plan investments		2,674,628
Changes in proportion and differences between Medical Center contributions and proportionate share of contributions	3,377,773	2,040,804
Employer contributions subsequent to the measurement date	<u>1,011,259</u>	<u>1,363,392</u>
Total deferred outflows of resources	<u>\$ 8,657,718</u>	<u>\$ 7,842,350</u>

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note J - Defined Benefit Pension Plan - Continued

	<u>2021</u>	<u>2020</u>
Deferred inflows of resources		
Differences between expected and actual experience	\$ 163,552	\$ 294,713
Changes of assumptions	<u>6,414,084</u>	<u> </u>
Total deferred inflows of resources	<u>\$ 6,577,636</u>	<u>\$ 294,713</u>

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2021, that will be recognized in pension expense in future years:

Year ended <u>December 31,</u>	Employer contributions subsequent to the measurement <u>date</u>	Recognition of net deferred outflows/(inflows) of resources <u>by year</u>	<u>Total</u>
2022	\$ 1,011,259	\$ 915,820	\$ 1,927,079
2023		692,561	692,561
2024		230,143	230,143
2025		(986,407)	(986,407)
2026		<u>216,706</u>	<u>216,706</u>
	<u>\$ 1,011,259</u>	<u>\$ 1,068,823</u>	<u>\$ 2,080,082</u>

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note K - Employee Health Insurance

The Medical Center is self-insured for health insurance claims of its employees. The Medical Center has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of \$100,000 for each covered individual. The reinsurance arrangement also covers aggregate annual claims in excess of an amount determined in relation to the number of individuals participating in the self-insured health benefits plan during the year. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. Contributions by the Medical Center and participating employees are remitted to the Southwest Medical Center Employee Health Plan Trust. The Trust has retained an insurance company as its agent to process and settle claims. The Trust reimburses the agent weekly for the amount of claims paid by the agent net of any amounts covered by reinsurance. The following is a summary of the activity under this arrangement:

	<u>2021</u>	<u>2020</u>
Estimated net health insurance claims payable at beginning of year	\$ 459,244	\$ 360,193
Provision for Medical Center's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	2,491,110	2,672,561
Employee contributions	1,212,835	1,271,468
Payments made for claims and related expenses	<u>(3,844,601)</u>	<u>(3,844,978)</u>
Estimated net health insurance claims payable at end of year	318,588	459,244
Trust assets available for payment of claims and related expenses	<u>1,922,287</u>	<u>1,966,349</u>
Net estimated prepaid expense for health insurance claims at end of year	<u>\$ (1,603,699)</u>	<u>\$ (1,507,105)</u>

Note L - Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Medicare	15 %	18 %
Medicaid	11	7
Blue Cross	20	18
Other third-party payors	30	23
Self-pay	<u>24</u>	<u>34</u>
	<u>100 %</u>	<u>100 %</u>

Southwest Medical Center
Notes to Financial Statements - Continued
December 31, 2021 and 2020

Note M - Related Party Transactions

During December 31, 2021 and 2020, the Medical Center received \$200,000 and \$350,675, respectively, from the Foundation for the purchase of property and equipment. Of the Foundation's 2020 contributions, \$80,675 is reflected in their financials in June 30, 2021 expenses as the donation occurred subsequent to the Foundation's June 30, 2020 year-end.

Note N - Risks and Uncertainties

On March 11, 2020, the World Health Organization designated COVID-19 as a global pandemic. Various policies were implemented by federal, state, and local governments in response to the pandemic that caused people to stay home, forced closure and limitations on some businesses, and suspended elective procedures at health care facilities. While many restrictions have been eased and the Medical Center is now able to perform elective procedures, the pandemic continues to impact the Medical Center's operations. The impact on future operations is driven by numerous factors, which are beyond managements control and management's ability to forecast the total impact on operations. The Medical Center is unable to estimate the length of time or financial impact the pandemic will have on operations.

The CARES Act and subsequent legislation enacted by the federal government has provided funding during these uncertain times. See Note H and Note I pertaining to the HHS grant funds and the SBA PPP loan.

Note O - Risk Management

For the years ended December 31, 2021 and 2020, the Medical Center was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Medical Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Medical Center for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability coverage in excess of the underlying limits set forth above in the amount of \$2,000,000 per occurrence with an aggregate amount in any policy year of \$2,000,000. All coverage is on a claims-made basis. The above policies are currently in effect through November 21, 2022. The Medical Center intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

In addition to the risks disclosed elsewhere in these financial statements and notes thereto, the Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Medical Center purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

Required Supplementary Information

Southwest Medical Center
Schedule of Medical Center's Proportionate Share of the Net Defined Pension Plan Liability
December 31,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Medical Center's proportion of the net pension liability	1.5053%	1.3223%	1.2845%	1.1710%	1.0805%	1.0368%	1.0293%	0.9772%
Medical Center's proportionate share of the net pension liability	\$ 18,062,893	\$ 22,923,725	\$ 17,949,317	\$ 16,321,574	\$ 15,651,026	\$ 16,039,277	\$ 13,315,032	\$ 12,027,370
Medical Center's covered employee payroll	\$ 24,722,041	\$ 29,892,184	\$ 24,212,126	\$ 22,146,496	\$ 19,835,721	\$ 18,126,275	\$ 17,693,998	\$ 16,526,686
Medical Center's proportionate share of the net pension liability as a percentage of its covered employee payroll	73.06%	76.69%	74.13%	73.70%	78.90%	88.49%	75.25%	72.78%
Plan fiduciary net position as a percentage of the total pension liability	81.14%	70.77%	75.02%	74.22%	72.15%	68.55%	71.98%	72.56%

Southwest Medical Center
Schedule of Medical Center Contributions to Defined Pension Plan
December 31,

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 2,192,845	\$ 2,573,717	\$ 2,152,458	\$ 1,858,091	\$ 1,678,102	\$ 1,663,992	\$ 1,677,391	\$ 1,460,959	\$ 1,239,538	\$ 1,118,958
Contributions in relation to the contractually required contribution	<u>(2,192,845)</u>	<u>(2,573,717)</u>	<u>(2,152,458)</u>	<u>(1,858,091)</u>	<u>(1,678,102)</u>	<u>(1,663,992)</u>	<u>(1,677,391)</u>	<u>(1,460,959)</u>	<u>(1,239,538)</u>	<u>(1,118,958)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Medical Center's covered employee payroll	\$ 24,722,041	\$ 29,892,184	\$ 24,212,126	\$ 22,146,496	\$ 19,835,721	\$ 18,126,275	\$ 17,693,998	\$ 16,526,686	\$ 15,611,310	\$ 15,244,659
Contributions as a percentage of covered employee payroll	8.87%	8.61%	8.89%	8.39%	8.46%	9.18%	9.48%	8.84%	7.94%	7.34%

Supplementary Information

Southwest Medical Center
Balance in Depository Compared with Depository Security
December 31, 2021

	<u>Bank balances</u>	<u>F.D.I.C. coverage</u>	<u>Balance subject to pledging of securities</u>	<u>Market value of securities pledged</u>	<u>Market value of securities pledged in excess of depository requirements</u>
Equity Bank	\$ 45,002,287	\$ 500,000	\$ 44,502,287	\$ 47,954,724	\$ 3,452,437
Community Bank	6,000,000	250,000	5,750,000	5,799,812	49,812

Southwest Medical Center
Schedule of Revenues and Expenses with Budget Comparison
Year ended December 31, 2021

	<u>Actual</u>	<u>Budget</u>	<u>Over (under)</u>
Net patient service revenue	\$ 73,742,079	\$ 79,404,790	\$ (5,662,711)
Other	<u>414,103</u>	<u>568,992</u>	<u>(154,889)</u>
Total operating revenues	74,156,182	79,973,782	(5,817,600)
Total operating expenses	<u>76,704,475</u>	<u>76,782,153</u>	<u>(77,678)</u>
Operating income	(2,548,293)	3,191,629	(5,739,922)
Nonoperating expenses	<u>14,807,532</u>	<u>(278,999)</u>	<u>15,086,531</u>
Excess of revenues over expenses before capital grants and contributions	<u>\$ 12,259,239</u>	<u>\$ 2,912,630</u>	<u>\$ 9,346,609</u>

**Southwest Medical Center
Summary of Insurance Coverage
December 31, 2021**

<u>Insurer</u>	<u>Type of coverage</u>	<u>Coverage amount</u>	<u>Term</u>
KaMMCO Insurance Company	Hospital professional liability Other liability Personal injury/property	HPL \$200,000/\$600,000 PL \$1,000,000/\$3,000,000 PIP \$1,000,000/\$3,000,000	November 21, 2021 to November 21, 2022
Kansas Health Care Provider Insurance Availability Act	Excess hospital professional liability	\$800,000/\$2,400,000	November 21, 2021 to November 21, 2022
KaMMCO Insurance Company	Umbrella liability	\$2,000,000/\$2,000,000	November 21, 2021 to November 21, 2022
Cincinnati Financial	Directors, Officers, and Trustees liability Employment practices liability Fiduciary and Trustee liability Workplace violence	\$2,000,000/\$2,000,000 \$2,000,000/\$2,000,000 \$2,000,000/\$2,000,000 \$100,000/\$100,000	January 1, 2021 to January 1, 2022
KaMMCO Insurance Company	Fire legal liability	\$50,000/\$50,000	November 21, 2021 to November 21, 2022
KaMMCO Insurance Company	Cyber liability	\$1,000,000/\$1,000,000	November 21, 2021 to November 21, 2022
KS KUST Liability Plan	Underground Storage Tank	\$500,000/\$1,000,000	February 16, 2021 to February 16, 2022
Chubb Insurance	Property	Real - \$55,882,652 Personal - \$20,332,480 Business interruption - \$46,631,868	January 1, 2021 to January 1, 2022
Cincinnati Financial	Auto liability and physical damage	\$1,000,000/\$1,000,000	January 1, 2021 to January 1, 2022

Southwest Medical Center
Summary of Insurance Coverage - Continued
December 31, 2021

<u>Insurer</u>	<u>Type of coverage</u>	<u>Coverage amount</u>	<u>Term</u>
Cincinnati Financial	Commercial crime	Employee theft - \$500,000 Forgery/alteration - \$250,000 Theft of money and securities - inside premises - \$25,000 Money and securities - outside premises - \$5,000 Computer fraud - \$250,000 Fund transfer fraud - \$250,000 Social engineering - \$250,000 Money orders and counterfeit money - \$25,000	January 1, 2021 to January 1, 2022
KHA Workers' Compensation Fund, Inc.	Workers' compensation and employers liability (Kansas)	Statutory: Bodily injury by accident - \$500,000 each accident Bodily injury by disease - \$500,000 policy limit Bodily injury by disease - \$500,000 each employee	January 1, 2021 to January 1, 2022

Southwest Medical Center
Schedule of Expenditures of Federal Awards
Year ended December 31, 2021

<u>Federal grantor/pass-through grantor/program title</u>	<u>Assistance listing number</u>	<u>Pass-through entity identifying number</u>	<u>Expenditures</u>	<u>Amount passed- through to subrecipients</u>
U.S. Department of Health and Human Services				
COVID-19 Provider Relief Fund	93.498	None	\$ 10,368,910	\$ -
COVID-19 HRSA COVID-19 Uninsured Program	93.461	None	<u>974,478</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>11,343,388</u>	<u>-</u>
U.S. Department of Treasury				
Pass-through Seward County, Kansas				
COVID-19 Coronavirus Relief Fund	21.019	None	24,174	
Pass-through Kansas Department of Health & Environment				
COVID-19 State and Local Fiscal Recovery Funds	21.027	None	<u>78,996</u>	<u>-</u>
Total U.S. Department of Treasury			<u>103,170</u>	<u>-</u>
Total federal awards			<u>\$ 11,446,558</u>	<u>\$ -</u>

Southwest Medical Center
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2021

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant award activity of Southwest Medical Center (the Medical Center) under programs of the federal government, for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Medical Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Medical Center.

Note 2 - Significant Accounting Policies

Expenditures on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 - Indirect Cost Rate

The Medical Center has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance. The Medical Center's federal expenditures do not include indirect administrative expenses.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Trustees
Southwest Medical Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the business-type activities of Southwest Medical Center (Medical Center), as of and for the year ended December 31, 2021, the discretely presented component unit as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated August 10, 2022. The financial statements of Southwest Medical Center Foundation (the Foundation), the discretely presented component unit, were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Foundation.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-002 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2021-003 and 2021-004.

Medical Center's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Medical Center's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Medical Center's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Wendling Noe Nelson: Johnson LLC". The signature is written in a cursive, flowing style.

Topeka, Kansas
August 10, 2022

**Independent Auditor's Report on Compliance for Each Major Program and on
Internal Control Over Compliance Required by the Uniform Guidance**

Board of Trustees
Southwest Medical Center

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Southwest Medical Center's (Medical Center) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Medical Center's major federal programs for the year ended December 31, 2021. The Medical Center's major federal programs are identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Medical Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Medical Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Medical Center's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Medical Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance

resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Medical Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Medical Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Medical Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2021-003 and 2021-004. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards requires the auditor to perform limited procedures on the Medical Center's response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Medical Center's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The Medical Center is responsible for preparing a corrective action plan to address each audit finding included in the auditor's report. The Medical Center's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify deficiencies in internal control over compliance that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility

that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-004 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2021-003 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Medical Center's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Medical Center's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wendling Noel Nelson: Johnson LLC

Topeka, Kansas
August 10, 2022

Southwest Medical Center
Schedule of Findings and Questioned Costs
Year ended December 31, 2021

Section I - Summary of Auditor's Results

Financial statements

Type of opinion expressed in the auditor's report issued Unmodified

Internal control over financial reporting

- Material weakness(es) identified? X Yes No
- Significant deficiencies identified that are not considered to be material weakness(es)? X Yes None reported

Noncompliance material to financial statements noted Yes X No

Federal awards

Internal control over major programs

- Material weakness(es) identified? Yes X No
- Significant deficiencies identified that are not considered to be material weakness(es)? X Yes None reported

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a) X Yes No

Identification of major programs

CFDA Number

Name of Program

93.498
93.461

Provider Relief Fund
HRSA COVID-19 Uninsured Program

Dollar threshold used to distinguish between type A and type B programs \$750,000

Entity qualified as low-risk auditee Yes X No

Section II - Financial Statement Findings

2021-001 Revenue recognition

Identification: Material weakness in internal control over financing reporting.

Criteria: Under generally accepted accounting principles, patient accounts receivable and patient revenue are reduced to net amounts expected to be received.

Condition: The allowance for contractual adjustments and uncollectible accounts (bad debts) in accounts receivable were understated at December 31, 2021.

Cause: The Medical Center has procedures in place to calculate the estimated contractual adjustments and uncollectible accounts in accounts receivable. Procedures include a model that is used for estimating the allowance for contractual adjustments and an analysis that is used for the allowance for bad debts.

Southwest Medical Center
Schedule of Findings and Questioned Costs - Continued
Year ended December 31, 2021

However, the procedures were not adequate to identify material misstatements in these allowances. We noted that the contractual adjustment model had not been updated for changes to the input as a result of the computer system conversion in December 2019. The errors in the contractual adjustment model also caused errors in estimating the allowance for bad debts because the contractual adjustment model was utilized in the analysis for the allowance for bad debts.

Effect: Audit adjusting journal entries were posted to increase the allowance for contractual adjustments by \$2,708,621, increase the allowance for uncollectible accounts by \$2,000,000, and decrease net patient service revenue by \$4,708,621. These corrections equaled 11.7 percent of current assets and 6.4 percent of net patient service revenue reported in the financial statements.

Recommendations: We recommend that management review the financial reporting process for estimating the allowance for contractual adjustments and uncollectible accounts in accounts receivable. The contractual adjustment model should be updated to reflect changes needed for the Meditech Expanse system and the model changes should be incorporated into the estimate for uncollectible accounts receivable.

Views of Responsible Officials: The Medical Center is in the process of updating our models for the allowance for contractual adjustment and allowance for uncollectible accounts estimates. Once the models are complete, the accounting manager will prepare the estimates and they will be reviewed by the Chief Financial Officer. The business office is diligently working on writing off old accounts and approving applications for charity care for write-off. These processes are expected to improve the accuracy of the allowance estimates. The Medical Center will also be cognizant of the qualitative factors that impact the models such as the composition and aging of the accounts receivable.

2021-002 Reconciliations

Identification: Significant deficiency in internal control over financing reporting.

Criteria: An effective internal control system exists if controls are effective in preventing or detecting and correcting material misstatements in the preparation of the financial statements.

Condition: We have determined that there was an inadequate design of internal control over the preparation of the financial statements during December 31, 2021, pertaining to reconciliation of balance sheet accounts.

Cause: The Medical Center has procedures in place to accrue for goods and services received, services rendered, and salaries and wages costs incurred. However, the procedures did not include reconciliations of all balance sheet accounts to prevent, detect, and correct misstatements on a timely basis.

Effect: Several audit adjusting journal entries were posted to correct for improperly accrued accounts receivable, improperly accrued liabilities, improper postings to cash and bond funds. The corrections increased current assets by \$764,738, decreased noncurrent assets by \$357,524, increased current liabilities by \$585,613, decreased operating expenses by \$184,730, decreased net patient service revenue by \$363,129, and decreased net income by \$178,400.

Recommendations: We recommend that all balance sheet accounts be reconciled in a timely manner to ensure that misstatements are prevented or detected and corrected on a timely basis.

Southwest Medical Center
Schedule of Findings and Questioned Costs - Continued
Year ended December 31, 2021

Views of Responsible Officials: These misstatements occurred due to lack of adequate time to close the monthly financial statements specifically at December 31, 2021, due to staffing constraints. In the future, the Medical Center will allow adequate time to prepare and review monthly journal entries and conduct monthly account balance reconciliations. A new accountant has been hired to help alleviate staffing constraints.

Section III - Federal Award Findings and Questioned Costs

2021-003

Identification: 93.498 United States Department of Health and Human Services, COVID-19 Provider Relief Fund; Noncompliance Finding/Significant Deficiency; Reporting Compliance Requirement.

Criteria: The Provider Relief Fund (PRF) was established under the Coronavirus, Aid, Relief, and Economic Security Act (Pub. L. No. 116-136, 134 Stat. 563) and the Coronavirus Relief and Response Supplemental Appropriations Act (Pub. L. No. 116-260). Eligible health care providers received PRF appropriations for health care-related expenses or lost revenues attributable to coronavirus. Recipients who received one or more payments exceeding \$10,000 are required to report in each applicable reporting period. The PRFs are to be used to prevent, prepare for, and respond to coronavirus. The PRFs are to reimburse recipients only for health care related expenses or lost revenues that are attributable to coronavirus.

Condition: The Medical Center had an error in the Period 1 reporting submission. The Medical Center's calculation of salary and wage expense pertaining to coronavirus payroll relief payments was calculated using net pay versus gross pay.

Cause: The Medical Center's calculation focused on the payroll bank account transactions versus the expense postings in the general ledger.

Effect: The Medical Center understated the calculation of expenditures to prevent, prepare, and respond to coronavirus by \$911,017. However, it was noted that the Medical Center had sufficient expenditures reported to cover the PRF grant funding.

Questioned costs: None

Perspective information: We tested the Period 1 report submitted during the reporting period to supporting documentation to determine if the report was completed accurately.

Repeat Finding: N/A

Recommendations: We recommend policies and procedures over federal grant reporting be strengthened to ensure required reports are completed accurately.

Views of Responsible Officials: At the time the reporting was completed, the Medical Center had more expenditures to prevent, prepare, and respond to COVID-19 identified than payments received from the PRF. As a result, the Medical Center did not need to capture the additional expense to correctly report salary expense at gross versus net. In the future, the Medical Center will be cognizant of correctly capturing the expenses that have been identified as being to prevent, prepare, and respond to COVID-19.

2021-004

Identification: 93.498 United States Department of Health and Human Services, COVID-19 Provider Relief Fund; Noncompliance Finding/Material Weakness; Allowable Activities Compliance Requirement.

Southwest Medical Center
Schedule of Findings and Questioned Costs - Continued
Year ended December 31, 2021

Criteria: The Provider Relief Fund (PRF) was established under the Coronavirus, Aid, Relief, and Economic Security Act (CARES Act) (Pub. L. No. 116-136, 134 Stat. 563) and the Coronavirus Relief and Response Supplemental Appropriations Act (Pub. L. No. 116-260). The PRFs are to be used to prevent, prepare for, and respond to coronavirus. The PRFs are to reimburse recipients only for health care related expenses or lost revenues that are attributable to coronavirus. PRF funds received during Period 1, April 10, 2020 through June 30, 2020, have a period of availability of January 1, 2020 through June 30, 2021, and Period 2, July 2021 through December 31, 2021, have a period of availability of January 1, 2020 through December 31, 2021.

Condition: The Medical Center did not meet the requirement that the PRF funds be used for expenditures within the period of availability or to prevent, prepare for, or respond to coronavirus. The Medical Center included \$136,650 in expenditures that were outside the period of availability or within the period of availability but before coronavirus impacted the Medical Center.

Cause: The Medical Center included contract labor costs outside the period of availability or were within the period of availability but before COVID-19 impacted the Medical Center for Period 1 expenditures.

Effect: Overstatement of PRF expenditures reported on Period 1 submission.

Questioned costs: Known \$136,650. However as noted in finding 2021-003, the Medical Center understated expenditures by \$911,017. Together finding 2021-003 and 2021-004 result in a net understatement of \$774,367, indicating the Medical Center had sufficient expenditures for Period 1 to cover the PRF grant funding.

Perspective information: In the sample of 60 and 3 individually significant, there were 7 instances noted from the sample that were outside the period of availability or within the period of availability but before COVID-19 impacted the Medical Center. Extrapolation was not necessary, as we were able to perform additional procedures to determine expenditures not included in the sample that were outside the period of availability or within the period of availability but before COVID-19 impacted the Medical Center. The sample was a statistically valid sample.

Repeat finding: N/A

Recommendations: We recommend policies and procedures over federal grant reporting be strengthened to ensure expenditures applied to the federal grants are within the period of availability.

Views of Responsible Officials: The inclusion of expenses outside the period of availability was due to contract labor expenditures being captured by general ledger posting date versus review of support to determine when the service was rendered. In the future, the Medical Center will review support to determine if the expenditure is within the period of availability before including as a PRF expenditure. The Medical Center agrees with this finding, however, would note that the Medical Center incurred additional contract labor costs within the period of availability that were not included in the Period 1 submission of expenditures, in addition to the additional salary expense noted in finding 2021-003 incurred and not reported.