Independent Auditor's Report and Financial Statements

Southwest Medical Center

December 31, 2024 and 2023

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Southwest Medical Center
Management's Discussion and Analysis
Years ended December 31, 2024 and 2023

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, 2024 and 2023. Please read it in conjunction with the accompanying basic financial statements.

The discussion and analysis pertaining to the years ended December 31, 2023 and 2022, has been updated to reflect the prior period adjustments for adoption of GASB 101 and corrections of errors for capital assets corrections during the year ended December 31, 2024.

Financial highlights

The Medical Center's net position, or equity, decreased $5,108,644 or 13.7 percent during 2024 and decreased $12,608,118 or 25.3 percent during 2023.

The Medical Center reported a $4,186,184 or 32.7 percent decrease in the operating loss for 2024 and a $163,643 or 1.3 percent increase in the operating loss for 2023.

The net assets of Southwest Medical Center Foundation (the Foundation), a component unit of the Medical Center, with years ended June 30, 2024 and 2023, increased $911,212 or 13.0 percent during 2024 and increased $193,017 or 2.8 percent during 2023. The Foundation reports under the Financial Accounting Standards Board (FASB) standards and has separately issued financial statements. These can be obtained by reaching out to the Foundation's board.

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?"

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:

	2024	2023	2022
Assets			
Current assets	$ 18,555,420	$ 22,080,688	$ 28,371,711
Assets limited as to use	37,543,839	39,023,048	37,100,294
Capital assets, net	20,145,519	19,257,882	21,674,163
Total assets	76,244,778	80,361,618	87,146,168
Deferred outflows of resources on advance refunding	531,096	601,675	672,737
Liabilities			
Current liabilities	(23,936,394)	(23,135,902)	(19,584,380)
Long-term liabilities	(253,145)	(245,000)	(248,950)
Total liabilities excluding net pension and OPEB liabilities	(24,189,539)	(23,380,902)	(19,833,330)
Deferred inflows of resources on advance refunding	(71,843)	(79,708)	(88,859)
Net pension and OPEB liabilities, net of pension and OPEB related deferred outflows and deferred inflows of resources	(20,330,186)	(20,209,733)	(17,995,648)
Net position	$ 32,184,306	$ 37,292,950	$ 49,901,068

Cash and cash equivalents in the current asset category decreased by $977,805 during 2024 and decreased by $5,853,284 during 2023.

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 increased by $65,057 during 2024 and increased by $1,554,451 during 2023. Net transfers were made from operating cash to this category of assets that totaled approximately $300,000 in 2024 and $1,383,000 in 2023.

In aggregate, the Medical Center's unrestricted cash and invested cash total was $35,927,763 and $36,840,511 as of December 31, 2024 and 2023, respectively. These represent 167 and 183 days, respectively, of cash expenses during each of the years then ended.

The Medical Center's net patient accounts receivable were 73 percent of current assets as of December 31, 2024, 68 percent as of December 31, 2023, and 54 percent as of December 31, 2022. In relation to net patient service revenue, net patient accounts receivable decreased 18.1 percent during 2024, decreased 4.6 percent during 2023, and decreased 3.3 percent during 2022. The average number of days of net patient revenue represented by them was 68 days, 83 days, and 87 days as of December 31, 2024, 2023, and 2022, respectively.

The Medical Center incurred lease obligations of $102,798 in 2024 and $29,754 in 2022.

At the end of 2024, the Medical Center had $20,145,519 in capital assets, net of accumulated depreciation and amortization. The total value of capital assets acquired or leased totaled $3,881,088, $1,211,610, and $1,249,362 during 2024, 2023, and 2022, respectively.

The Medical Center's net position decreased $5,108,644 or 13.7 percent during 2024, decreased $12,608,118 or 25.3 percent during 2023, and decreased $12,017,428 or 19.0 percent during 2022. The percentage of total assets financed with its net position, or equity, was 42.2 percent, 46.4 percent, and 57.3 percent as of December 31, 2024, 2023, and 2022, 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:

	2024	2023	2022
Assets			
Current assets	$ 6,332,397	$ 5,866,690	$ 5,985,600
Capital assets, net	424,045	427,865	431,685
Other assets	1,565,042	737,073	736,671
Total assets	8,321,484	7,031,628	7,153,956
Liabilities			
Current liabilities	(388,773)	(10,129)	(325,474)
Net assets	$ 7,932,711	$ 7,021,499	$ 6,828,482

The Foundation's current assets consist primarily of investments in marketable securities. The Foundation's net assets increased $911,212 or 13.0 percent during fiscal year 2024 and increased $193,017 or 2.8 percent during fiscal year 2023. In 2024, the increase in net assets is due to a significant estate contribution and investment market conditions. The change in net assets in 2023 was primarily influenced by investment market conditions during the year.

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:

	2024	2023	2022
Operating revenues	$ 72,755,797	$ 66,329,003	$ 64,533,609
Operating expenses excluding actuarial adjustments	(81,239,678)	(76,905,436)	(75,702,861)
Actuarial adjustment to pension and OPEB expenses	(120,453)	(2,214,085)	(1,457,623)
Operating loss	(8,604,334)	(12,790,518)	(12,626,875)
Interest expense	(389,248)	(400,201)	(414,065)
Noncapital grants and contributions	2,384,544	38,855	586,194
Other nonoperating revenues	805,394	247,958	122,318
Capital grants and contributions	695,000	295,788	315,000
Change in net position	$ (5,108,644)	$ (12,608,118)	$ (12,017,428)

The first, and most significant, component of the overall change in the Medical Center's net position is its operating income (loss) - generally, the difference between net patient service revenue and the expenses incurred to perform those services. The operating loss decreased $4,186,184 during 2024 and increased $163,643 during 2023.

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

	2024	2023	2022
Inpatient services	$ 76,489,049	$ 76,921,362	$ 81,245,145
Outpatient services	134,158,727	123,841,829	113,437,287
Physician services	24,738,598	22,987,090	22,851,272
Gross patient service revenue	235,386,374	223,750,281	217,533,704
Contractual adjustments	(143,862,820)	(142,848,403)	(137,928,424)
Provision for bad debts	(17,579,971)	(13,623,108)	(13,526,622)
Charity care	(1,597,265)	(1,275,704)	(1,915,413)
Net patient service revenue	$ 72,346,318	$ 66,003,066	$ 64,163,245

The Medical Center did targeted rate increases in January 2024, and raised rates 4.5 percent in January 2023 and 4.0 percent in January 2022.

Total inpatient revenues decreased 0.6 percent and 5.3 percent in 2024 and 2023, respectively. Total inpatient days decreased 0.4 percent during 2024 and by 5.8 percent during 2023. Total outpatient revenues increased 8.3 percent and 9.2 percent in 2024 and 2023, respectively. In 2024, a general surgeon began their practice in June and a local OB/GYN became an employee of the Medical Center in September. In April 2023, one surgeon retired. During 2022, one surgeon began their practice in January.

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 increased 25.2 percent during 2024 and decreased 33.4 percent during 2023. Together, the provision for bad debts and charity care represented 8.2 percent, 6.7 percent, and 7.1 percent of gross patient service revenue during 2024, 2023, and 2022, respectively.

Employee salaries and wages increased by $4,064,063 or 13.7 percent during 2024 and increased by $227,389 or 0.8 percent during 2023. These changes are functions of changes in the number of employees and pay rates. Average pay rates increased by 7 percent during 2024 and 2023. Total full-time equivalent employees increased by 22 or 6 percent during 2024 and decreased by 24 or 6 percent during 2023. The changes in employees during 2024 was the result of being able to hire more employees and use less contract labor whereas in 2023, the decrease was due to staffing challenges resulting in having to use more contract labor. Staffing levels are also impacted by patient volume.

The cost of employee benefits excluding the pension and OPEB adjustments was 24 percent of salaries and wages during 2024 and 2023. Employee benefit expenses excluding the pension and OPEB adjustments increased $924,201 during 2024 and decreased $332,457 during 2023. The increase in 2024 and decrease in 2023 are primarily due to changes in FTEs.

Supplies and other expenses decreased by $19,582 or 0.1 percent during 2024 and increased by $1,445,998 or 4.1 percent during 2023. The decrease in 2024 was primarily due to the decrease usage of contract labor. The increase in 2023 was consistent with the general rate of health care inflation and the continued need to use contract labor due to reduced employed staffing.

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:

	2024	2023	2022
Contributions	$ 825,742	$ 100	$ 200
Investment return, net	744,206	449,779	(700,021)
Other income	66,077	69,479	125,860
Expenses	(724,813)	(326,341)	(342,334)
Change in net assets	$ 911,212	$ 193,017	$ (916,295)

Unrealized gains and losses are included in the investment return category on the Foundation's financial statements. The Foundation's investment return included net realized and unrealized gains of $529,732 for the year ended June 30, 2024, net realized and unrealized losses of $276,985 for the year ended June 30, 2023, and net realized and unrealized gains of $813,197 for the year ended June 30, 2022. These results followed changes in the broad market indices during those years.

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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, 2024 and 2023, the discretely presented component unit as of and for the years ended June 30, 2024 and 2023, 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, 2024 and 2023, the respective financial position of the discretely presented component unit of the Medical Center as of June 30, 2024 and 2023, 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 as of and for the year ended December 31, 2023, and the financial statements of Southwest Medical Center Foundation, the discretely presented component unit, for the years ended June 30, 2024 and 2023, 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.

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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 and *Government Auditing Standards* 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 and other postemployment benefit plan 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 49 through 52 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 is 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 information on pages 49 through 52 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 May 21, 2025, 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 : Johnsen LLC

Topeka, Kansas
May 21, 2025

Financial Statements

Southwest Medical Center
Statements of Net Position
December 31, 2024 and 2023

Assets and Deferred Outflows of Resources

	2024	2023
Current assets		
Cash and cash equivalents	$ 559,368	$ 1,537,173
Assets limited as to use	439,608	409,873
Patient accounts receivable, net of allowance for uncollectible accounts of $6,773,905 in 2024 and $6,639,172 in 2023	13,453,863	14,979,554
Other receivables	5,532	5,532
Estimated third-party payor receivables	594,329	691,376
Inventories	1,717,177	1,807,675
Prepaid expenses	1,785,543	2,649,505
Total current assets	18,555,420	22,080,688
Assets limited as to use		
Internally designated	35,368,395	35,303,338
Under indenture agreements - held by trustee	1,461,604	1,460,249
By contributors and grantors for capital acquisitions	1,153,448	2,669,334
	37,983,447	39,432,921
Less amounts required to meet current obligations	439,608	409,873
	37,543,839	39,023,048
Capital assets		
Capital assets not being depreciated	3,139,486	782,377
Depreciable capital assets, net	16,920,368	18,466,827
Lease assets, net	85,665	8,678
Capital assets - net	20,145,519	19,257,882
Total assets	76,244,778	80,361,618
Deferred outflows of resources		
Pension	5,470,862	8,447,630
Other postemployment benefits (OPEB)	41,941	52,293
Advance refunding	531,096	601,675
Total deferred outflows of resources	6,043,899	9,101,598
Total assets and deferred outflows of resources	$ 82,288,677	$ 89,463,216

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2024	2023
Current liabilities		
Current portion of bonds payable	$ 11,830,989	$ 12,470,799
Current portion of lease liabilities	18,182	8,950
Accounts payable	6,857,222	6,760,482
Estimated third-party payor payables	75,001	286,340
Unearned COVID-19 revenue	38,556	38,556
Other accrued liabilities	28,363	78,456
Accrued salaries and benefits	3,161,514	2,213,525
Accrued compensated absences	1,781,753	1,126,546
Accrued interest payable	144,814	152,248
Total current liabilities	23,936,394	23,135,902
Long-term liabilities		
Lease liabilities, less current portion	70,145	
Accrued compensated absences	183,000	245,000
Other postemployment benefits (OPEB) liability	233,624	245,836
Net pension liability	19,895,661	25,469,405
Total long-term liabilities	20,382,430	25,960,241
Total liabilities	44,318,824	49,096,143
Deferred inflows of resources		
Pension	5,248,200	2,535,212
Other postemployment benefits	465,504	459,203
Advance refunding	71,843	79,708
Total deferred inflows of resources	5,785,547	3,074,123
Net position		
Invested in capital assets - net of related debt	8,685,455	7,300,100
Restricted		
For debt service	1,461,604	1,460,249
Expendable for capital acquisitions	1,153,448	2,669,334
Unrestricted	20,883,799	25,863,267
Total net position	32,184,306	37,292,950
Total liabilities, deferred inflows of resources, and net position	$ 82,288,677	$ 89,463,216

Southwest Medical Center
Statements of Financial Position - Discretely Presented Component Unit
Southwest Medical Center Foundation
June 30, 2024 and 2023

	2024	2023
Assets		
Current assets		
Cash	$ 185,068	$ 135,390
Certificates of deposit	388,000	388,000
Short-term investments	4,931,622	5,340,958
Contributions receivable	825,292	
Royalties receivable	711	434
Prepaid expenses	1,704	1,908
Total current assets	6,332,397	5,866,690
Capital assets - net	424,045	427,865
Other assets		
Endowment investments	1,500,379	672,485
Other investments	64,663	64,588
Total other assets	1,565,042	737,073
Total assets	$ 8,321,484	$ 7,031,628
Liabilities and Net Assets		
Accrued liabilities	$ 388,773	$ 10,129
Net assets		
Without donor restrictions	6,004,745	6,006,364
With donor restrictions		
Purpose restricted	427,587	342,650
Perpetual in nature	1,500,379	672,485
Total with donor restrictions	1,927,966	1,015,135
Total net assets	7,932,711	7,021,499
Total liabilities and net assets	$ 8,321,484	$ 7,031,628

The accompanying notes are an integral part of these statements.

Southwest Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2024 and 2023

	2024	2023
Operating revenues		
Net patient service revenue	$ 72,346,318	$ 66,003,066
Other	409,479	325,937
Total operating revenues	72,755,797	66,329,003
Operating expenses		
Salaries and wages	33,696,851	29,632,788
Employee benefits	7,904,542	6,980,341
Actuarial adjustments to pension and OPEB expense	120,453	2,214,085
Supplies and other	36,644,834	36,664,416
Depreciation and amortization	2,993,451	3,627,891
Total operating expenses	81,360,131	79,119,521
Operating loss	(8,604,334)	(12,790,518)
Nonoperating revenues (expenses)		
Investment income	805,394	247,958
Interest expense	(389,248)	(400,201)
Noncapital grants and contributions	2,384,544	38,855
Total nonoperating revenues (expenses)	2,800,690	(113,388)
Excess of expenses over revenues before capital grants and contributions	(5,803,644)	(12,903,906)
Capital grants and contributions	695,000	295,788
Change in net position	(5,108,644)	(12,608,118)
Net position at beginning of year		
As previously reported	38,260,612	50,475,136
Prior period adjustment	(967,662)	(574,068)
As restated	37,292,950	49,901,068
Net position at end of year	$ 32,184,306	$ 37,292,950

The accompanying notes are an integral part of these statements.

Southwest Medical Center
Statements of Activities - Discretely Presented Component Unit
Southwest Medical Center Foundation
Years ended June 30, 2024 and 2023

	2024	2023
Changes in net assets without donor restrictions		
Revenues, gains, and other support		
Contributions	$ 450	$ 100
Oil and gas revenue, net	8,563	16,477
Farm revenue, net	57,514	53,002
Investment return	641,667	391,106
Net assets released from restrictions	15,000	227,000
Total revenues, gains, and other support	723,194	687,685
Expenses and losses		
Program services	695,000	295,538
Management and general	29,813	30,803
Total expenses and losses	724,813	326,341
Change in net assets without donor restrictions	(1,619)	361,344
Changes in net assets with donor restrictions		
Contributions	825,292	
Investment return, net	102,539	58,673
Net assets released from restrictions	(15,000)	(227,000)
Change in net assets with donor restrictions	912,831	(168,327)
Change in net assets	911,212	193,017
Net assets at beginning of year	7,021,499	6,828,482
Net assets at end of year	$ 7,932,711	$ 7,021,499

The accompanying notes are an integral part of these statements.

Southwest Medical Center
Statements of Cash Flows
Years ended December 31, 2024 and 2023

	2024	2023
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 73,757,717	$ 65,546,666
Payments to or on behalf of employees	(39,193,044)	(36,183,603)
Payments for supplies and services	(36,080,696)	(32,293,315)
Other receipts and payments	409,479	344,271
Net cash used by operating activities	(1,106,544)	(2,585,981)
Cash flows from noncapital financing activities		
Noncapital grants and contributions	2,384,544	38,855
Net cash provided by noncapital financing activities	2,384,544	38,855
Cash flows from capital and related financing activities		
Acquisition of capital assets	(4,208,474)	(883,805)
Principal payments on long-term obligations	(600,000)	(580,000)
Principal payments on lease liabilities	(23,421)	(71,384)
Interest paid	(373,778)	(387,630)
Capital grants and contributions	630,000	610,788
Net cash used by capital and related financing activities	(4,575,673)	(1,312,031)
Cash flows from investing activities		
Change in assets limited as to use	(1,355)	(55,386)
Investment income received	815,586	232,814
Net cash provided by investing activities	814,231	177,428
Net change in cash and cash equivalents	(2,483,442)	(3,681,729)
Cash and cash equivalents at beginning of year	31,990,665	35,672,394
Cash and cash equivalents at end of year	$ 29,507,223	$ 31,990,665
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	$ 559,368	$ 1,537,173
Cash included in assets limited as to use		
Internally designated	27,859,407	27,784,158
By contributors and grantors for capital acquisitions	1,088,448	2,669,334
Total cash and cash equivalents	$ 29,507,223	$ 31,990,665

Southwest Medical Center
Statements of Cash Flows - Continued
Years ended December 31, 2024 and 2023

	2024	2023
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (8,604,334)	$(12,790,518)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization	2,993,451	3,627,891
Provision for bad debts	17,579,971	13,623,108
Changes in		
Accounts receivable	(16,054,280)	(13,291,120)
Other receivables		18,334
Inventories and prepaid expenses	954,460	(234,243)
Accounts payable and accrued expenses	2,018,027	5,034,870
Estimated third-party payor settlements	(114,292)	(788,388)
Net pension and OPEB liabilities and deferred inflows and deferred outflows related to defined benefit and OPEB plans	120,453	2,214,085
Net cash used by operating activities	$ (1,106,544)	$ (2,585,981)
Supplemental schedule of noncash investing and financing activities		
Lease liability incurred	$ 102,798	$ -

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
Years ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities		
Change in net assets	$ 911,212	$ 193,017
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	3,820	3,820
Net realized and unrealized gain on investments	(529,732)	(276,985)
Investment returns restricted for endowment	(2,603)	(1,123)
Changes in		
Contributions receivable	(825,292)	
Royalties receivable	(277)	958
Prepaid expenses	204	(21)
Other investments	(75)	868
Accrued liabilities	378,644	(315,345)
Net cash used by operating activities	(64,099)	(394,811)
Cash flows from investing activities		
Proceeds from sales of investments	5,416,331	10,874,449
Purchase of investments	(5,302,554)	(11,044,756)
Net cash provided (used) by investing activities	113,777	(170,307)
Net change in cash and cash equivalents	49,678	(565,118)
Cash and cash equivalents at beginning of year	135,390	700,508
Cash and cash equivalents at end of year	$ 185,068	$ 135,390

The accompanying notes are an integral part of these statements.

Southwest Medical Center
Notes to Financial Statements
December 31, 2024 and 2023

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 accounting 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.

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 specific operations and 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 excluding lease assets are stated at cost. Depreciation of capital assets excluding lease 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.

Lease assets are recognized at the lease commencement date and represent the right-to-use an underlying asset for the lease term. Leased assets are measured at the initial value of the lease liability at the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus any initial direct costs necessary to place the lease asset into service. Leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method or the same method amortizing the lease liability.

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.

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

11. Costs of borrowing

Interest costs (including amortization of bond premiums and discounts, and of deferred outflows on advanced refunding) incurred on borrowed funds during the period of construction of capital assets are expensed in the period incurred. Original issue premiums and discounts and deferred outflows on advance refunding associated with issuance of long-term debt are amortized using the interest method over the term of the related debt.

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. Compensated absences

Employees are entitled to paid time off (PTO) depending on length of service and whether they are full-time or part-time. PTO vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment. Upon retirement, resignation, or termination from service, employees are entitled to payment for all accrued unused PTO. PTO benefits are expensed and accrued as earned under the Medical Center's PTO policy, with the vested amount recorded as a current accrued liability.

Employees are also entitled to extended illness benefits (EIB) depending on whether they are full-time or part-time. Employees who have accrued more than 480 hours of EIB but less than the maximum 720 hours may exchange 16 hours for payment of 8 hours of EIB. The EIB sell-back can occur no more than once a quarter. Upon retirement, resignation, or termination from service, employees with 480 hours or less of EIB forfeit accrued unused EIB, employees in good standing with an excess of 480 hours will receive 50 percent of the excess hours up to the maximum. The Medical Center expenses and accrues 50 percent of EIB in excess of the 480 hours up to the maximum as a current liability. In addition, the Medical Center accrues a current and noncurrent estimate of vested extended illness benefits under 480 hours that are expected to be used based on historical usage.

14. 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.

15. Pension and Other Postemployment Benefit (OPEB) plans

The Medical Center participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple employer defined benefit pension plan. The Medical Center also provides long-term disability benefits to its employees through KPERS. The Medical Center uses information provided by KPERS to measure the net pension and OPEB liabilities and deferred outflows of resources and deferred inflows of resources of the KPERS pension and OPEB plans.

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

16. Net position

The net position of the Medical Center is classified into three 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 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. "Unrestricted net position" is the remaining net position that does not meet the definitions of the other three components of net position.

17. 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.

18. 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.

19. 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.

20. 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.

21. 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 ended on and before December 31, 2020, 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 ended on and before June 30, 2020, are not subject to examination by taxing authorities.

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

22. Foundation policies

The Foundation's investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investment income or loss, including realized and unrealized gains and losses on investments, interest, and dividends on net assets without donor restrictions and net assets with donor restrictions, to the extent the income has been appropriated for expenditure, is included in the change in net assets without donor restrictions. Investment income that is restricted by donor or law or not otherwise appropriated for expenditure is included in the change in net assets with donor restrictions.

The Foundation's purchased capital assets are reported in the statements of financial position at cost. Donations of capital assets are recorded as contributions at their estimated fair value as of the date received. Equipment is capitalized if it has a cost of $5,000 or more and a useful life when acquired of more than one year. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. The Foundation is depreciating the farm land improvements using the straight-line method over estimated useful lives of 10-20 years. Depreciation expense totaled $3,820 for the years ended June 30, 2024 and 2023.

All capital assets of the Foundation are held for investment purposes. Investment return consists of farm land lease revenue and oil and gas royalties net of related expenses.

The Foundation's net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor or certain grantor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for landscaping.

Net Assets With Donor Restrictions - Net assets subject to donor or certain grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions are recognized when cash, securities, other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Contributions are reported as either with or without donor restrictions. Contributions receivable at June 30, 2024, were $825,292, the full amount is due within one year and is deemed fully collectible.

23. Prior period adjustments

During part of 2022 and for the year ended December 31, 2023, the Medical Center did not place capital assets into service resulting in depreciation not being recognized. Effective January 1, 2024, the Medical Center corrected the accounting and presentation for these capital assets. The effect of correcting these errors on the year ended December 31, 2023 financial statements is shown in the table in Note T.

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

24. Adoption of accounting pronouncements

Effective January 1, 2024, the Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences* (GASB 101). GASB 101, requires that liabilities for compensated absences be recognized for (1) leave that has not been used, and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services the employee already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, an entity should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences.

GASB 101 requires a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest period presented (i.e., January 1, 2023). The effect of implementing this standard on beginning net position was a decrease of $395,000 applicable to 2023 and has been included in the 2023 restated 2023 net position. See Note T for additional disclosure for amounts restated.

25. 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.

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.

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 31, 2021.

Note B - Reimbursement Programs - Continued

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, is as follows:

	2024	2023
Gross patient service revenue	$235,386,374	$223,750,281
Contractual adjustments	(143,862,820)	(142,848,403)
Provision for bad debts	(17,579,971)	(13,623,108)
Charity care	(1,597,265)	(1,275,704)
Net patient service revenue	$ 72,346,318	$ 66,003,066

Revenue from the Medicare and Medicaid programs accounted for approximately 19 percent and 8 percent, respectively, of the Medical Center's net patient service revenue during 2024, and 19 percent and 7 percent, respectively, of the Medical Center's net patient service revenue during 2023. 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.

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, 2024, the carrying amount of the Medical Center's bank deposits, including certificates of deposit, was $36,994,841 and the bank balances were $38,075,374. Of the bank balances, $750,000 was covered by federal depository insurance, and $37,325,374 was covered by collateral held by a third-party bank, but not registered in the Medical Center's name.

Note C - Deposits with Financial Institutions - Continued

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

Cash and cash equivalents	$ 546,986
Assets limited as to use	
Internally designated	35,359,407
By contributors and grantors for capital acquisitions	1,088,448
Total bank deposits	$ 36,994,841

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, is as follows:

	2024	2023
Mutual funds	$ 677,859	$ 609,864
Stocks and exhange traded funds	5,036,460	5,260,572
Fixed income securities	717,682	143,007
	$ 6,432,001	$ 6,013,443

The Foundation's investment return is summarized as follows:

	2024	2023
Interest and dividends	$ 267,623	$ 222,088
Realized gains and losses	92,315	(11,361)
Unrealized gains and losses	437,417	288,346
Investment fees and taxes	(53,149)	(49,294)
	$ 744,206	$ 449,779

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.

Note E - Fair Value of Financial Instruments - Continued

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, 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, 2024			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 677,859	$ -	$ -	$ 677,859
Stocks and exchange traded funds	5,036,460			5,036,460
Fixed income securities		717,682		717,682
	$ 5,714,319	$ 717,682	$ -	$ 6,432,001

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 609,864	$ -	$ -	$ 609,864
Stocks and exchange traded funds	5,260,572			5,260,572
Fixed income securities		143,007		143,007
	$ 5,870,436	$ 143,007	$ -	$ 6,013,443

Note F - Assets Limited As to Use

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

	2024	2023
Internally designated		
Cash	$ 27,859,407	$ 27,784,158
Certificates of deposit	7,500,000	7,500,000
Accrued interest receivable	8,988	19,180
	$ 35,368,395	$ 35,303,338
Under indenture agreements - held by trustee		
Cash	$ -	$ 10,000
Government obligation money market funds	1,461,604	1,450,249
	$ 1,461,604	$ 1,460,249
By contributors and grantors for capital acquisitions		
Cash	$ 1,088,448	$ 2,669,334
Contributions receivable	65,000	
	$ 1,153,448	$ 2,669,334

Note G - Capital Assets

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

	2024			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Capital assets not being depreciated				
Land	$ 104,046	$ -	$ -	$ 104,046
Construction in progress	678,331	2,357,109		3,035,440
Total capital assets not being depreciated	782,377	2,357,109	-	3,139,486
Capital assets being depreciated				
Land improvements	2,270,127			2,270,127
Buildings and fixed equipment	28,966,820	474,996		29,441,816
Major movable equipment	23,267,942	946,185		24,214,127
Total capital assets being depreciated	54,504,889	1,421,181	-	55,926,070
Less accumulated depreciation				
Land improvements	1,175,453	87,872		1,263,325
Buildings and fixed equipment	16,920,966	1,309,066		18,230,032
Major movable equipment	17,941,643	1,570,702		19,512,345
Total accumulated depreciation	36,038,062	2,967,640	-	39,005,702
Total capital assets being depreciated, net	18,466,827	(1,546,459)	-	16,920,368
Lease assets being amortized				
Buildings	29,754	102,798	29,754	102,798
Total lease assets being amortized	29,754	102,798	29,754	102,798
Less accumulated amortization				
Buildings	21,076	25,811	29,754	17,133
Total accumulated amortization	21,076	25,811	29,754	17,133
Total lease assets being amortized, net	8,678	76,987	-	85,665
Capital assets, net	$ 19,257,882	$ 887,637	$ -	$ 20,145,519

Note G - Capital Assets - Continued

	2023			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Capital assets not being depreciated				
Land	$ 104,046	$ -	$ -	$ 104,046
Construction in progress	716,944	(38,613)		678,331
Total capital assets not being depreciated	820,990	(38,613)	-	782,377
Capital assets being depreciated				
Land improvements	2,270,127			2,270,127
Buildings and fixed equipment	28,698,771	268,049		28,966,820
Major movable equipment	22,285,768	982,174		23,267,942
Total capital assets being depreciated	53,254,666	1,250,223	-	54,504,889
Less accumulated depreciation				
Land improvements	1,087,581	87,872		1,175,453
Buildings and fixed equipment	15,620,924	1,300,042		16,920,966
Major movable equipment	15,771,660	2,169,983		17,941,643
Total accumulated depreciation	32,480,165	3,557,897	-	36,038,062
Total capital assets being depreciated, net	20,774,501	(2,307,674)	-	18,466,827
Lease assets being amortized				
Buildings	29,754			29,754
Major movable equipment	187,398		187,398	
Total lease assets being amortized	217,152	-	187,398	29,754
Less accumulated amortization				
Buildings	6,199	14,877		21,076
Major movable equipment	132,281	55,117	187,398	
Total accumulated amortization	138,480	69,994	187,398	21,076
Total lease assets being amortized, net	78,672	(69,994)	-	8,678
Capital assets, net	$ 21,674,163	$ (2,416,281)	$ -	$ 19,257,882

Construction in progress at December 31, 2024 and 2023, consisted mainly of costs incurred for building improvements and for equipment and software purchased but not yet in service. At December 31, 2024, the Medical Center had outstanding commitments for building improvements of approximately $210,000.

Note G - Capital Assets - Continued

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

	2024			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Farm land improvements	$ 172,636	$ -	$ -	$ 172,636
Total capital assets being depreciated	172,636			172,636
Less accumulated depreciation and amortization	119,297	3,820		123,117
Total capital assets being depreciated, net	53,339	(3,820)		49,519
Capital assets not being depreciated				
Land	374,526			374,526
Capital assets, net	$ 427,865	$ (3,820)	$ -	$ 424,045

	2023			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Farm land improvements	$ 172,636	$ -	$ -	$ 172,636
Total capital assets being depreciated	172,636			172,636
Less accumulated depreciation and amortization	115,477	3,820		119,297
Total capital assets being depreciated, net	57,159	(3,820)		53,339
Capital assets not being depreciated				
Land	374,526			374,526
Capital assets, net	$ 431,685	$ (3,820)	$ -	$ 427,865

Note H - Bonds Payable

Bonds payable as of December 31, are summarized as follows:

	2024	2023
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	$ 8,795,000	$ 8,880,000
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	2,715,000	3,230,000
	11,510,000	12,110,000
Add net unamortized premium on bonds	320,989	360,799
Less current maturities and premium on bonds	11,830,989	12,470,799
	$ -	$ -

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. At December 31, 2024, the Medical Center was not in compliance with the rate covenants requiring that the debt service coverage ratio be no less than 1.15. As a result, the full amount outstanding as of December 31, 2024, is presented as current liabilities.

Note H - Bonds Payable - Continued

The debt service requirements on bonds payable as of December 31, 2024, are as follows:

	Principal	Interest	Total
2025	$ 11,510,000	$ 350,600	$ 11,860,600

The following is a summary of changes in bonds payable:

Outstanding at January 1, 2023	$ 12,690,000
Principal payments	(580,000)
Outstanding at January 1, 2024	12,110,000
Principal payments	(600,000)
Outstanding at December 31, 2024	$ 11,510,000

Note I - Leases

The Medical Center leases certain equipment and buildings, the terms of which expire in various years through 2029. Payments are based on each specific agreement and the periodic base rents range from $1,300 to $5,741 per month. The agreements do not contain variable lease payments.

The following is a summary of lease liabilities as of December 31:

	2024	2023
Current portion of lease liabilities	$ 18,182	$ 8,950
Noncurrent portion of lease liabilities	70,145	
Total lease liabilities	$ 88,327	$ 8,950

The following is a summary of changes in lease liabilities of the Medical Center:

	2024	2023
Beginning balance at January 1	$ 8,950	$ 80,334
Lease liability incurred	102,798	
Principal payments	(23,421)	(71,384)
Ending balance at December 31	$ 88,327	$ 8,950

Note I - Leases - Continued

Scheduled lease payments for the Medical Center's lease liabilities are as follows:

	Principal	Interest	Total
2025	$ 18,182	$ 5,608	$ 23,790
2026	19,990	4,278	24,268
2027	21,941	2,817	24,758
2028	24,030	1,220	25,250
2029	4,184	38	4,222
	$ 88,327	$ 13,961	$ 102,288

Note J - Interest Expense

Total interest costs are summarized as follows:

	2024	2023
Total interest incurred	$ 366,344	$ 380,443
Amortization of bond premium	(39,810)	(42,153)
Amortization of deferred outflows and inflows on advance refunding	62,714	61,911
Interest expense	$ 389,248	$ 400,201

Note K - 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."

Note K - 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.

The 2012 legislature made changes affecting new hires, current members, and employers. A new cash balance retirement plan (KPERS 3) was created for new hires starting after January 1, 2015. Normal retirement age for KPERS 3 is 65 with five years of service or 60 with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

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 contribution rates 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 2024 and 2023. The employer rates established by statute at December 31, 2024 and 2023, are 9.26 percent and 8.43 percent, respectively. The Medical Center employer contributions to KPERS for the years ended December 31, 2024 and 2023, were $2,139,504 and $2,075,994, respectively. The employer contributions to KPERS for the year ended December 31, 2024, exclude $451,252 due to KPERS to equal statutory required contributions for the year ended December 31, 2024. The year ended December 31, 2023, employer contributions are equal to the statutory required contributions for the year ended December 31, 2023.

Note K - Defined Benefit Pension Plan - Continued

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, 2024 and 2023, are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group for the years ended June 30, 2024 and 2023, respectively. The contributions used exclude contributions made for prior service, excess benefits, and irregular payments. As of December 31, 2024, the Medical Center's proportion was 0.937 percent, which was a decrease from its share at December 31, 2023, of 1.214 percent.

Net pension liability

At December 31, 2024 and 2023, the Medical Center reported a liability of $19,895,661 and $25,469,405, 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, 2023 and 2022, which were then rolled forward to June 30, 2024 and 2023, using the following actuarial assumptions:

Actuarial assumptions	2023	2022
Price inflation	2.75%	2.75%
Salary increases, including wage increases	3.50% - 15.50%	3.50% - 12.00%
Long-term rate of return net of investment expense and including price inflation	7.00%	7.00%

For 2023 and 2022, 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 morality improvements are anticipated using Scale MP-2016.

Note K - Defined Benefit Pension Plan - Continued

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, 2024, are summarized in the following table:

Asset class	Long-term target allocation	Long-term expected real rate of return
Non-U.S. Equities	43.00 %	8.20 %
Core Fixed Income	13.00	2.20
Yield driven	12.00	5.30
Infrastructure	3.00	6.80
Real estate	15.00	5.70
Alternatives	11.00	12.00
Short-term investments	3.00	0.30
Total	100.00 %	

Discount rate

The discount rates used to measure the total pension liability as of December 31, 2023 and 2022, was 7.00 percent. The State and School 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, 2024, 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, 2024, calculated using the discount rate of 7.00 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 (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	1% decrease (6.00%)	Current discount rate (7.00%)	1% increase (8.00%)
Medical Center's share of net pension liability	$ 28,803,476	$ 19,895,661	$ 12,451,161

Pension expense

For the years ended December 31, 2024 and 2023, the Medical Center recognized pension expense of $2,669,810 and $4,298,092, 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.

Note K - Defined Benefit Pension Plan - Continued

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, 2024 and 2023, 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.

	2024	2023
Deferred outflows of resources		
Differences between expected and actual experience	$ 2,420,177	$ 2,117,240
Change of assumptions	1,202,589	2,699,402
Net difference between projected and actual earnings on pension plan investments	121,887	1,487,555
Changes in proportion and differences between Medical Center contributions and proportionate share of contributions	604,153	1,235,924
Employer contributions subsequent to the measurement date	1,122,056	907,509
Total deferred outflows of resources	$ 5,470,862	$ 8,447,630

	2024	2023
Deferred inflows of resources		
Differences between expected and actual experience	$ -	$ 3,587
Changes in proportion and differences between Medical Center contributions and proportionate share of contributions	5,248,200	2,531,625
Total deferred inflows of resources	$ 5,248,200	$ 2,535,212

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2024, that will be recognized in pension expense in future years:

Year ended December 31,	Employer contributions subsequent to the measurement date	Recognition of net deferred outflows/(inflows) of resources by year	Total
2025	$ 1,122,056	$ (74,747)	$ 1,047,309
2026		513,843	513,843
2027		(632,003)	(632,003)
2028		(706,487)	(706,487)
	$ 1,122,056	$ (899,394)	$ 222,662

Note L - Other Postemployment Benefit Plan

Plan description and benefits provided

The Kansas Public Employees Retirement System (KPERS) sponsors a long-term disability program for participating employers (the Plan). Participating employers pay the cost of the long-term disability and life insurance coverage for their eligible members as provided by K.S.A. 74-04927. The Hospital is considered to be participating in a single employer long-term disability plan. The Plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. However, because the trust's assets are used to pay employee benefits other than postemployment benefits (OPEB), the trust does not meet the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Accordingly, the Plan is considered to be administered on a pay-as-you-go basis.

Benefits are established by statute and may be amended by the KPERS Board of Trustees. The Plan provides long-term disability benefits equal to 60 percent (prior to January 1, 2006, 66 2/3 percent) of annual compensation, offset by other benefits. Members receiving long-term disability benefits also receive credit towards their KPERS retirement benefits and have their group life insurance coverage continued under the waiver of premium provision.

The monthly long-term disability benefit is 60 percent of the member's monthly compensation, with a minimum of $100 and a maximum of $5,000. The monthly benefit is subject to reduction by deductible sources of income, which includes Social Security primary disability or retirement benefits, workers compensation benefits, other disability benefits from other sources by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while the disability continues until the member's 65th birthday or retirement date, whichever occurs first. If the disability begins after age 60, benefits are payable while the disability continues, for a period of five years or until the member retires, whichever occurs first. Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically based mental illnesses are limited to the shorter of the term of the disability or 24 months per lifetime. There are no automatic cost-of-living increase provisions. KPERS has the authority to implement an ad hoc cost-of-living increase.

The death benefit paid to beneficiaries of disabled members is 150 percent of the greater of 1) the member's annual rate of compensation at the time of disability, or 2) the member's previous 12 months of compensation at the time of the past date on payroll. If the member has been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed using the consumer price index, less one percentage point, to compute the death benefit. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, the member may be eligible to receive up to 100 percent of the death benefit rather than having the benefit paid to the beneficiary. If a member retires or disability benefits end, the member may convert the group life insurance coverage to an individual insurance policy.

Covered employees

The Hospital has the following employees covered by the Plan as of December 31:

	2023	2022
Active employees	346	367

Total OPEB liability

At December 31, 2024 and 2023, the Medical Center reported a total OPEB liability of $233,624 and $245,836, respectively.

Note L - Other Postemployment Benefit Plan - Continued

Actuarial assumptions

The total OPEB liability was determined by actuarial valuations as of December 31, 2023 and 2022, which were then rolled forward to June 30, 2024 and 2023, using the following actuarial assumptions:

Actuarial assumptions	2023	2022
Price inflation	2.75%	2.75%
Wage inflation	3.00%	3.00%
Salary increases, including wage increases	3.50% - 10.30%	3.50% - 10.00%
Discount rate	3.65%	3.65%

In 2023 and 2022, mortality rates used for the death benefits were based on the RP-2014 Mortality Tables. Mortality improvements were projected for future years using Projection Scales MP-2021. Mortality rates used for disability benefits were included in long-term disability claim termination rates.

The actuarial assumptions used in the December 31, 2023 and 2022 valuations were based on the results of the latest actuarial experience study conducted.

Changes in the total OPEB liability

	2024	2023
Liability at beginning of period	$ 245,836	$ 260,011
Changes for the year		
Service cost	55,133	59,278
Interest	10,985	11,302
Changes in economic/demographic gains or losses	(78,181)	(83,257)
Changes in assumptions or other inputs	(149)	(1,498)
Net change in liability	(12,212)	(14,175)
Liability at end of period	$ 233,624	$ 245,836

Sensitivity of the OPEB liability to changes in the discount rate

The following table presents the total OPEB liability as of June 30, 2024, calculated using the discount rate of 3.93 percent, as well as what the OPEB's liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.93 percent) or 1-percentage-point higher (4.93 percent) than the current rate:

	1% decrease (2.93%)	Current discount rate (3.93%)	1% increase (4.93%)
Total OPEB liability	$ 245,629	$ 233,624	$ 220,976

OPEB expense

For the years ended December 31, 2024 and 2023, the Medical Center recognized OPEB expense of $4,441 and $16,628, respectively, which includes the changes in the total OPEB liability and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Note L - Other Postemployment Benefit Plan - Continued

Deferred outflows and resources and deferred inflows of resources

A summary of the collective deferred outflows of resources and deferred inflows of resources related to the OPEB plan at December 31, 2024 and 2023, are included in the tables below.

	2024	2023
Deferred outflows of resources		
Differences between actual and expected experience	$ 25,459	$ 32,285
Changes in assumptions	16,482	20,008
Total deferred outflows of resources	$ 41,941	$ 52,293
Deferred inflows of resources		
Differences between expected and actual experience	$ 374,801	$ 354,783
Changes in assumptions	90,703	104,420
Total deferred inflows of resources	$ 465,504	$ 459,203

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2024, that will be recognized in OPEB expense in future years:

Year ended December 31,	Recognition of net deferred outflows/(inflows) of resources by year
2025	$ (61,677)
2026	(61,358)
2027	(58,650)
2028	(56,205)
2029	(60,383)
Thereafter	(125,290)
	$ (423,563)

Note M - 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

Note M - Employee Health Insurance - Continued

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:

	2024	2023
Estimated net health insurance claims payable at beginning of year	$ 265,284	$ 251,747
Provision for Medical Center's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	2,881,520	2,318,819
Employee contributions	1,047,228	1,093,409
Payments made for claims and related expenses	(3,802,672)	(3,398,691)
Estimated net health insurance claims payable at end of year	391,360	265,284
Trust assets available for payment of claims and related expenses	743,244	1,373,714
Net estimated prepaid expense for health insurance claims at end of year	$ (351,884)	$ (1,108,430)

Note N - Compensated Absences

The following is a summary of compensated absences at December 31:

	2024	2023
Current portion of compensated absences	$ 1,781,753	$ 1,126,546
Noncurrent portion of compensated absences	183,000	245,000
Total compensated absences	$ 1,964,753	$ 1,371,546

The following is a summary of changes in compensated absences:

	2024	2023
Beginning balance at January 1	$ 1,371,546	$ 1,347,861
Net change	593,207	23,685
Ending balance at December 31	$ 1,964,753	$ 1,371,546

Note O - 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, 2024 and 2023, is as follows:

	2024	2023
Medicare	17 %	21 %
Medicaid	15	16
Blue Cross	14	14
Other third-party payors	32	24
Patients	22	25
	100 %	100 %

Note P - Related-Party Transactions

The Medical Center recognized $695,000 of contribution revenue from the Foundation for the acquisition of capital assets for the year ended December 31,2024, with $65,000 recorded as contributions receivable included in assets limited as to use by contributors for capital asset acquisition. The Medical Center recognized contribution revenue of $295,538 from the Foundation for the acquisition of capital assets for the year ended December 31, 2023.

The Foundation recorded program service expense of $695,000 and $295,538 for contributions promised/made to the Medical Center for capital asset acquisition for the years ended June 30, 2024 and 2023, respectively. The Foundation's accrued liabilities at June 30, 2024, include $380,000 promised to the Medical Center.

Note Q - COVID-19 Grants

On May 21, 2024, the Medical Center received $2,267,177 of federal assistance through the FEMA Coronavirus (COVID-19) Pandemic: Safe Opening and Operation Work Eligible for Public Assistance to reimburse pharmacy costs incurred as part of the Coronavirus pandemic. The costs were incurred by the Medical Center between March 23, 2020 and May 21, 2021. The federal assistance received is included in noncapital grants and contributions.

Note R - Risk Management

For the years ended December 31, 2024 and 2023, the Medical Center was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $500,000 per occurrence up to an annual aggregate of $1,500,000, 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 $500,000 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 $1,500,000. 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, 2025. 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.

Note R - Risk Management - Continued

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.

Note S - Endowments

The Foundation's endowments consist of seven individual funds established by donors to provide annual funding for specific activities. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. All of the Foundations' endowment funds are donor-restricted, which are contributions restricted by donors to investment in perpetuity with only investment income and appreciation being used to support the Foundation's activities in accordance with the donor's restrictions on use.

Absent explicit donor stipulations to the contrary, the Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Foundation retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added.

UPMIFA permits the Foundation to appropriate for expenditure or accumulate so much of a donor-restricted endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. In making its determination to appropriate or accumulate, the Foundation must act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and it must consider, if relevant, the following factors:

- The duration and preservation of the endowment fund
- The purpose of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policy of the Foundation

The net asset composition of the endowments for the years ended June 30, were as follows:

	2024	2023
Donor-restricted endowment funds		
Original donor-restricted gift amount	$ 1,449,519	$ 624,227
Accumulated investment gains	50,860	48,258
	$ 1,500,379	$ 672,485

The Foundation has adopted investment and spending policies for endowment assets that attempt to subject the fund to a moderate level of investment risk. Endowment assets are invested in a well-diversified asset mix, which include equity and debt securities. The Foundation's intent is to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

Note S - Endowments - Continued

Changes in endowment net assets for the years ended June 30, are as follows:

	2024	2023
Balance at beginning of year	$ 672,485	$ 671,215
Contributions	825,292	
Investment return, net	32,667	16,634
Amounts appropriated for expenditure	(30,065)	(15,364)
Balance at end of year	$ 1,500,379	$ 672,485

All endowed net assets at June 30, 2024 and 2023, are donor restricted. Amounts appropriated for expenditure represent amounts that are available to expend for the donor restricted purpose.

Note T - Prior Period Adjustments

The following changes were made to the Medical Center's financial statement amounts for the correction of an error described in Note A23 and adoption of a new accounting standard described in Note A24.

	Amount as previously reported	Correction of error	Change in accounting principle	Amount as restated
Balance Sheet				
Current assets				
Prepaid expense	$ 2,597,089	$ 52,416	$ -	$ 2,649,505
Total current assets	22,028,272	52,416		22,080,688
Capital assets				
Capital assets not being depreciated	2,562,778	(1,780,401)		782,377
Depreciable capital assets, net	17,303,504	1,163,323		18,466,827
Capital assets - net	19,874,960	(617,078)		19,257,882
Total assets	80,926,280	(564,662)		80,361,618
Total assets and deferred outflows of resources	90,027,878	(564,662)		89,463,216
Statement of Net Position				
Current liabilities				
Accrued compensated absences	968,546		158,000	1,126,546
Total current liabilities	22,977,902		158,000	23,135,902
Long-term liabilities				
Accrued compensated absences			245,000	245,000
Total long-term liabilities	25,715,241		245,000	25,960,241
Total liabilities	48,693,143		403,000	49,096,143
Net position				
Invested in capital assets - net of related debt	7,917,178	(617,078)		7,300,100
Unrestricted	26,213,851	52,416	(403,000)	25,863,267
Total net position	38,260,612	(564,662)	(403,000)	37,292,950
Total liabilities, deferred inflows of resources, and net position	90,027,878	(564,662)		89,463,216

Note T - Prior Period Adjustments - Continued

	Amount as previously reported	Correction of error	Change in accounting principle	Amount as restated
Statement of Revenues, Expenses, and Changes in Net Position				
Operating expenses				
Salaries and wages	$ 29,624,788	$ -	$ 8,000	$ 29,632,788
Supplies and other	36,579,994	84,422		36,664,416
Depreciation and amortization	3,326,719	301,172		3,627,891
Total operating expenses	78,725,927	385,594	8,000	79,119,521
Operating loss	(12,396,924)	(385,594)	(8,000)	(12,790,518)
Excess of expenses over revenues before capital grants and contributions	(12,510,312)	(385,594)	(8,000)	(12,903,906)
Change in net position	(12,214,524)	(385,594)	(8,000)	(12,608,118)
Net position at beginning of year, restated	50,475,136	(179,068)	(395,000)	49,901,068
Net position at end of year	38,260,612	(564,662)	(403,000)	37,292,950
Statement of Cash Flows				
Cash flows from operating activities				
Payments for supplies and services	(32,156,476)	(136,839)		(32,293,315)
Net cash used by operating activities	(2,449,142)	(136,839)		(2,585,981)
Cash flows from capital and related financing activities				
Acquisition of capital assets	(1,020,644)	136,839		(883,805)
Net cash used by capital and related financing activities	(1,448,870)	136,839		(1,312,031)
Reconciliation of operating loss to net cash used by operating activities				
Operating loss	(12,396,924)	(385,594)	(8,000)	(12,790,518)
Depreciation and amortization	3,326,719	301,172		3,627,891
Inventories and prepaid expenses	(181,826)	(52,417)		(234,243)
Accounts payable and accrued expenses	5,026,870		8,000	5,034,870
Net cash used by operating activities	(2,449,142)	(136,839)		(2,585,981)

Required Supplementary Information

Southwest Medical Center
Schedule of Medical Center's Proportionate Share of the Net Defined Pension Plan Liability
Kansas Public Employees' Retirement System Plan
Last 10 Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Medical Center's proportion of the net pension liability	0.9366%	1.2140%	1.2520%	1.5053%	1.3223%	1.2845%	1.1710%	1.0805%	1.0368%	1.0293%
Medical Center's proportionate share of the net pension liability	$ 19,895,661	$ 25,469,405	$ 24,889,639	$ 18,062,893	$ 22,923,725	$ 17,949,317	$ 16,321,574	$ 15,651,026	$ 16,039,277	$ 13,315,032
Medical Center's covered employee payroll	$ 27,977,927	$ 24,626,263	$ 26,338,022	$ 24,722,041	$ 29,892,184	$ 24,212,126	$ 22,146,496	$ 19,835,721	$ 18,126,275	$ 17,693,998
Medical Center's proportionate share of the net pension liability as a percentage of its covered employee payroll	71.11%	103.42%	94.50%	73.06%	76.69%	74.13%	73.70%	78.90%	88.49%	75.25%
Plan fiduciary net position as a percentage of the total pension liability		70.55%	70.66%	81.14%	70.77%	75.02%	74.22%	72.15%	68.55%	71.98%

Notes to Schedule: The amounts presented for each fiscal year are at the measurement date (June 30 of each previous fiscal year).

Southwest Medical Center
Schedule of Medical Center Contributions to Defined Pension Plan
Kansas Public Employees' Retirement System Plan
Last 10 Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	$ 2,590,756	$ 2,075,994	$ 2,344,084	$ 2,192,845	$ 2,573,717	$ 2,152,458	$ 1,858,091	$ 1,678,102	$ 1,663,992	$ 1,677,391
Contributions in relation to the contractually required contribution	(2,139,504)	(2,075,994)	(2,344,084)	(2,192,845)	(2,573,717)	(2,152,458)	(1,858,091)	(1,678,102)	(1,663,992)	(1,677,391)
Contribution deficiency (excess)	$ 451,252	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Medical Center's covered employee payroll	$ 27,977,927	$ 24,626,263	$ 26,338,022	$ 24,722,041	$ 29,892,184	$ 24,212,126	$ 22,146,496	$ 19,835,721	$ 18,126,275	$ 17,693,998
Contributions as a percentage of covered employee payroll	9.26%	8.43%	8.90%	8.87%	8.61%	8.89%	8.39%	8.46%	9.18%	9.48%

Notes to Schedule: The amounts presented for each fiscal year are at the measurement date (June 30 of each previous fiscal year).

Southwest Medical Center
Schedule of Changes in Medical Center's OPEB Liability and Related Ratios
Last 10 Fiscal Years

	2024	2023	2022	2021	2020	2019	2018	2017
Service cost	$ 55,133	$ 59,278	$ 114,287	$ 94,583	$ 76,823	$ 63,232	$ 62,687	$ 64,002
Interest on total OPEB liability	10,985	11,302	12,218	10,155	16,671	12,698	11,619	7,561
Changes in economic/demographic gains or losses	(78,181)	(83,257)	(194,635)	(19,270)	(147,565)	66,415	(58,781)	
Changes in assumption changes or inputs	(149)	(1,498)	(123,207)	959	26,459	7,355	(4,385)	(9,711)
Benefit payments					(13,790)	(16,375)		(2,581)
Net change in total OPEB liability	(12,212)	(14,175)	(191,337)	86,427	(41,402)	133,325	11,140	59,271
OPEB liability, beginning	245,836	260,011	451,348	364,921	406,323	272,998	261,858	202,587
OPEB liability, ending	$ 233,624	$ 245,836	$ 260,011	$ 451,348	$ 364,921	$ 406,323	$ 272,998	$ 261,858
Covered payroll	$ 23,992,393	$ 23,148,332	$ 24,663,102	$ 28,403,798	$ 23,385,454	$ 21,302,224	$ 18,546,765	$ 17,691,191
OPEB liability as a % of covered payroll	0.97%	1.06%	1.05%	1.59%	1.56%	1.91%	1.47%	1.48%

Notes to Schedule: This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are at the measurement date (June 30 of each previous fiscal year).

Supplementary Information

Southwest Medical Center
Balance in Depository Compared with Depository Security
December 31, 2024

	Bank balances	F.D.I.C. coverage	Balance subject to pledging of securities	Market value of securities pledged	Market value of securities pledged in excess of depository requirements
Equity Bank	$ 32,075,374	$ 500,000	$ 31,575,374	$ 33,077,036	$ 1,501,662
Community Bank	6,000,000	250,000	5,750,000	6,010,980	260,980

Southwest Medical Center
Schedule of Revenues and Expenses with Budget Comparison
Year ended December 31, 2024

	Actual	Budget	Over (under)
Net patient service revenue	$ 72,346,318	$ 73,930,000	$ (1,583,682)
Other	409,479	412,000	(2,521)
Total operating revenues	72,755,797	74,342,000	(1,586,203)
Total operating expenses	81,360,131	77,059,000	4,301,131
Operating loss	(8,604,334)	(2,717,000)	(5,887,334)
Nonoperating revenues (expenses)	2,800,690	3,230,000	(429,310)
Excess of revenues over (under) expenses before capital grants and contributions	$ (5,803,644)	$ 513,000	$ (6,316,644)

Southwest Medical Center
Summary of Insurance Coverage
December 31, 2024

Insurer	Type of coverage	Coverage amount	Term
KaMMCO Insurance Company	Hospital professional liability Other liability Personal injury/property	HPL $500,000/$1,500,000 PL $1,000,000/$3,000,000 PIP $1,000,000/$3,000,000	November 21, 2024 to November 21, 2025
Kansas Health Care Provider Insurance Availability Act	Excess hospital professional liability	$500,000/$1,500,000	November 21, 2024 to November 21, 2025
KaMMCO Insurance Company	Umbrella liability	$2,000,000/$2,000,000	November 21, 2024 to November 21, 2025
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, 2024 to January 1, 2025
KaMMCO Insurance Company	Fire legal liability	$50,000/$50,000	November 21, 2024 to November 21, 2025
QBE Insurance Group	Cyber liability Network security liability	$100,000/$250,000 $100,000/$2,000,000	January 1, 2024 to January 1, 2025
Great American Alliances Insurance Company	Underground Storage Tank	$500,000/$1,000,000	February 16, 2024 to February 16, 2025
Chubb Insurance	Property	Real - $71,175,352 Personal - $24,730,978 Business interruption - $60,678,409	January 1, 2024 to January 1, 2025
Cincinnati Financial	Auto liability and physical damage	$1,000,000/$1,000,000	January 1, 2024 to January 1, 2025

Southwest Medical Center
Summary of Insurance Coverage - Continued
December 31, 2024

Insurer	Type of coverage	Coverage amount	Term
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, 2024 to January 1, 2025
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, 2024 to January 1, 2025

Southwest Medical Center
Schedule of Expenditures of Federal Awards
Year ended December 31, 2024

Federal grantor/pass-through grantor/program title	Assistance listing number	Pass-through grantor's number	Passed through to subrecipients	Expenditures
United States Department of Homeland Security				
Passed through the State of Kansas Division of Emergency Management				
COVID-19 Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-4504-KS	$ -	$ 2,267,177
Total federal awards			$ -	$ 2,267,177

Southwest Medical Center
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2024

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, 2024. 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 continued 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.

Wendling Noe Nelson & Johnson LLC
Certified Public Accountants and Business Advisors

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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, 2024, 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 May 21, 2025. 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 opinion 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2004-001, 2024-002, and 2004-003 that we consider to be material weaknesses.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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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 Medical Center'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 Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wendling Noe Nelson : Johnsen LLC

Topeka, Kansas
May 21, 2025

Wendling Noe Nelson & Johnson LLC
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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, 2024. The Medical Center's major federal programs are identified in the summary of auditor's 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, 2024.

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

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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.

Report on Internal Control Over Compliance

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. 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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 Noe Nelson : Johnson LLC

Topeka, Kansas
May 21, 2025

Southwest Medical Center
Schedule of Findings and Questioned Costs
Year ended December 31, 2024

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)?	___ Yes	X 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)?	___ Yes	X 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)	___ Yes	X No

Identification of major programs

CFDA Number	Name of Program
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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

2024-001 Cash reconciliation procedures

Identification: Material weakness in internal control over financial reporting.

Criteria: Accurate financial reporting requires bank accounts to be timely and accurately reconciled on a monthly basis, including posting of transactions that are not part of the normal cash receipt and disbursement process.

Condition: We noted that the bank account reconciliations are not being prepared on a monthly basis. Reconciling items such as outstanding checks, deposits received by the bank but not posted in the system, and deposits posted in the system but not received by the bank were not identified. In addition, transfers between bank accounts are not being identified and posted to the general ledger.

Cause: The accounting staff responsible for the bank reconciliations stopped preparing the reconciliations.

Effect: Six audit adjusting journal entries were posted to correct the financial statements related to cash transactions not being posted due to the lack of bank reconciliation procedures. After management completed the reconciling procedures as of December 31, 2024, there continued to be a significant unidentified difference between the general ledger and bank account cash balances for the operating bank account.

Repeat Finding: No

Recommendation: We recommend that management work on implementing processes to reconcile all bank account balances to the general ledger on a monthly basis, including posting necessary adjustments for transactions that are not part of the normal cash receipt and disbursement process (i.e., transfers), and identifying all reconciling items.

Views of Responsible Officials: The Medical Center will strengthen the procedures over cash including using the daily cash spreadsheet to balance to the general ledger and bank postings on a daily basis and requiring the recording of electronically generated transactions on a timely basis. Transfers, payroll EFTs, and other transactions requiring manual journal entry, will have the journal entries posted within 24 hours of the transaction taking place. Bank reconciliations will be performed on a monthly basis. The Controller and Chief Financial Officer will review the results of these procedures over cash.

2024-002 Capital assets

Identification: Material weakness in internal control over financial reporting.

Criteria: Under generally accepted accounting principles, capital assets are to be depreciated over their estimated useful lives once placed into service. A fixed asset schedule should be maintained that is reconciled to the general ledger on a monthly basis to ensure accurate reporting on the financial statements.

Condition: We noted during our audit that the Medical Center is not placing capital assets into service on a timely basis understating depreciation expense.

Cause: The fixed asset module in Meditech is not being updated for capital assets that are placed into service. These assets are being left in construction in progress accounts with no depreciation being calculated on them once they are placed into service. We further noted that reconciliations of capital assets per the general ledger to the fixed asset module are not occurring on a monthly basis.

Effect: An audit adjusting journal entry was made to correct the financial statements by recognizing the capital assets as being in-service and recording the respective depreciation expense.

Repeat Finding: No

Recommendation: We recommend that monthly accounting procedures be strengthened to include recording capital assets activity in the fixed asset module on a timely basis and that the fixed asset module be reconciled to the general ledger on a monthly basis.

Views of Responsible Officials: The Medical Center will implement procedures to ensure that capital assets are placed into service in a timely manner, including entering outright purchases of capital assets into the fixed assets module of the accounting system and monitoring any construction in progress accounts to determine if all related invoices have been received and the capital assets are therefore able to be placed into service. The Controller will complete these tasks, and the Chief Financial Officer will review the results.

2024-003 General accounting and month-end closing processes

Identification: Material weakness in internal control over financial reporting.

Criteria: Accurate financial reporting requires general ledger balances to be reconciled to underlying supporting documentation on a routine basis to ensure that amounts are properly reported each reporting period.

Condition: A total of 18 audit adjusting journal entries were proposed as a result of our audit. In addition to the 6 audit adjusting journal entries for cash described in finding 2024-001 and the 1 audit adjusting journal entry for capital assets described in finding 2024-002, there were 11 other entries posted to various balance sheet accounts.

Cause: The accounting department has gone through turnover the past several years and standard accounting processes have not been fully implemented to review all balance sheet accounts on a routine basis.

Effect: Not reconciling all balance sheet accounts regularly could result in misstated financial statements.

Repeat Finding: No

Recommendation: We recommend that month-end processes be implemented to reconcile all balance sheet accounts from supporting documentation to the general ledger on a regular basis which will help prevent the reporting of materially misstated financial statements.

Views of Responsible Officials: The Medical Center will implement procedures to reconcile all significant balance sheet accounts on a monthly basis and all balance sheet accounts at a minimum on a quarterly basis. In the last quarter of the year it will be required for balance sheet accounts to be reconciled every month. These reconciling procedures will be the responsibility of all members of the accounting department, depending on their role. They will be reviewed by the Controller and Chief Financial Officer.

Section III - Federal Award Findings and Questioned Costs

None