Independent Auditor's Report and Financial Statements

Sedan City Hospital

June 30, 2025 and 2024

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Independent Auditor's Report

Board of Trustees
Sedan City Hospital

Opinion

We have audited the accompanying financial statements of the business-type activity of Sedan City Hospital (Hospital), a component unit of Sedan, Kansas, as of and for the years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Hospital'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 financial position of the business-type activities of Sedan City Hospital as of June 30, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. 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 Hospital 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 opinion.

Emphasis of Matter

As discussed in Note A17 to the financial statements, in 2025 the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinion is not modified to this matter.

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 Hospital's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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 the Kansas Municipal Audit and Accounting Guide will always detect a material misstatement

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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, 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 Hospital'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 Hospital'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

The Hospital has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Sedan City Hospital's basic financial statements as a whole. The accompanying supplementary information beginning on page 19 is 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
December 9, 2025

Financial Statements

Sedan City Hospital
Statements of Net Position
June 30, 2025 and 2024

Assets

	2025	2024
Current assets		
Cash and cash equivalents	$ 88,854	$ 187,874
Patient accounts receivable, net of allowance for doubtful accounts of $371,305 in 2025 and $396,412 in 2024	727,603	666,213
Sales tax and other receivables	61,853	58,100
Inventories	145,540	165,174
Prepaid expenses	28,090	25,574
Estimated third-party payor settlements	57,664	23,723
Total current assets	1,109,604	1,126,658
Assets limited as to use		
Internally designated by the Board	6,457	35,256
Capital assets		
Capital assets not being depreciated	12,137	32,562
Depreciable capital assets, net	608,037	678,751
Lease assets, net		82,008
Capital assets, net	620,174	793,321
Other assets	9,500	9,500
Total assets	$1,745,735	$1,964,735

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	2025	2024
Current liabilities		
Accounts payable	$ 634,206	$ 536,898
Accrued expenses		
Salaries and related benefits	181,185	77,582
Compensated absences	102,108	98,905
Other	16,435	23,528
Estimated third-party payor settlements	125,000	100,000
Current maturities of note payable to bank	95,705	120,705
Current maturities of lease liabilities	25,767	99,297
Total current liabilities	1,180,406	1,056,915
Noncurrent liabilities		
Lease liabilities, less current maturities		25,767
Compensated absences, net of current portion	29,000	26,000
Total noncurrent liabilities	29,000	51,767
Total liabilities	1,209,406	1,108,682
Net position		
Invested in capital assets, net of related debt	565,407	668,257
Unrestricted	(29,078)	187,796
Total net position	536,329	856,053
Total liabilities and net position	$1,745,735	$1,964,735

Sedan City Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2025 and 2024

	2025	2024
Operating revenues		
Net patient service revenue	$4,978,982	$4,954,007
Other	29,684	47,129
Total operating revenues	5,008,666	5,001,136
Operating expenses		
Salaries and wages	2,004,180	1,976,996
Employee benefits	468,585	418,164
Supplies and other	2,907,928	2,976,086
Depreciation and amortization	189,351	204,660
Total operating expenses	5,570,044	5,575,906
Operating loss	(561,378)	(574,770)
Nonoperating revenues (expenses)		
Sales tax revenue	215,235	200,279
Noncapital grants and contributions	9,180	10,574
Investment income	18,146	14,152
Interest expense	(12,707)	(19,978)
Total nonoperating revenues (expenses)	229,854	205,027
Excess of expenses over revenues before capital grants and contributions	(331,524)	(369,743)
Capital grants and contributions	11,800	135,720
Change in net position	(319,724)	(234,023)
Net position at beginning of year		
As previously reported	896,053	1,134,076
Prior period adjustment for change in accounting principle	(40,000)	(44,000)
As restated	856,053	1,090,076
Net position at end of year	$ 536,329	$ 856,053

The accompanying notes are an integral part of these statements.

Sedan City Hospital
Statements of Cash Flows
Years ended June 30, 2025 and 2024

	2025	2024
Cash flows from operating activities		
Receipts from and on behalf of patients	$4,908,651	$ 5,385,369
Payments to or on behalf of employees	(2,370,052)	(2,399,187)
Payments to suppliers	(2,791,924)	(2,882,687)
Other receipts and payments	25,931	29,802
Net cash provided (used) by operating activities	(227,394)	133,297
Cash flows from noncapital financing activities		
Noncapital grants and contributions	9,180	10,574
Proceeds from sales tax	215,236	200,279
Principal payments on notes payable to bank	(25,000)	(25,000)
Interest paid on notes payable to bank	(9,483)	(8,996)
Net cash provided by noncapital financing activities	189,933	176,857
Cash flows from capital and related financing activities		
Purchase of capital assets	(16,204)	(209,361)
Capital grants and contributions	11,800	135,720
Principal payments on lease liabilities	(99,297)	(93,529)
Interest paid on lease liabilities	(4,803)	(10,571)
Net cash used by capital and related financing activities	(108,504)	(177,741)
Cash flows from investing activities		
Investment income received	18,146	14,152
Net cash provided by investing activities	18,146	14,152
Change in cash and cash equivalents	(127,819)	146,565
Cash and cash equivalents at beginning of year	223,130	76,565
Cash and cash equivalents at end of year	$ 95,311	$ 223,130
Reconciliation of cash and cash equivalents to statements of net position		
Cash and cash equivalents in current assets	$ 88,854	$ 187,874
Cash internally designated by Board	6,457	35,256
	$ 95,311	$ 223,130

The accompanying notes are an integral part of these statements.

Sedan City Hospital
Statements of Cash Flows - Continued
Years ended June 30, 2025 and 2024

	2025	2024
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	$ (561,378)	$ (574,770)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	189,351	204,660
Provision for bad debts	238,237	351,249
Changes in		
Patient accounts receivable	(299,627)	(147,824)
Inventory and prepaid expenses	17,118	11,894
Other assets	(3,753)	(17,327)
Accounts payable and accrued expenses	201,599	77,478
Estimated third-party payor settlements	(8,941)	227,937
Net cash provided (used) by operating activities	$ (227,394)	$ 133,297

The accompanying notes are an integral part of these statements.

Sedan City Hospital
Notes to Financial Statements
June 30, 2025 and 2024

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

Sedan City Hospital (Hospital) is a not-for-profit critical access hospital located in Sedan, Kansas. The Hospital was organized to provide acute care services for the benefit of the community and is owned by Sedan, Kansas, and is governed by a Board of Trustees appointed by the governing body of the City of Sedan, Kansas. The Hospital primarily earns revenue by providing inpatient acute and outpatient services to patients in Southeast Kansas.

The Hospital has an agreement where the management and operating responsibilities of the Hospital are provided by Jane Phillips Medical Center, Inc., a charitable hospital located in Oklahoma, see Note K.

A summary of the significant accounting policies of Sedan City Hospital consistently applied in the preparation of the accompanying financial statements follows.

1. Basis of accounting

The Hospital utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. The Hospital is accounted for similar to an enterprise fund in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The intent of an enterprise fund is to finance or recover, primarily through user charges, the costs (expenses, including depreciation) of providing goods and services to its users. An enterprise fund prepares operating statements using as its measurement focus the flow of economic resources. Such operating statements are designed to report events and transactions that increase or decrease an entity's economic resources (i.e., all assets and liabilities). Enterprise fund transactions are accounted for using the accrual basis, under which revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

2. 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.

3. Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents include highly-liquid investments with an original maturity of three months or less.

4. Patient receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying value of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write-off and recovery information in determining the estimated bad debt provision.

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

5. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or net realizable value.

6. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements and medical scholarships over which the Board retains control and may, at its discretion, subsequently use for other purposes.

7. Capital assets

Capital asset acquisitions in excess of $5,000 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 Hospital's right-to-use an underlying asset for the lease term. Lease assets are measured at the initial value of the lease liability at the commencement date of the lease, plus any indirect costs necessary to place the lease asset into service. Lease assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method.

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.

8. Lease liabilities

Lease liabilities represent obligations to make payments arising from lease agreements. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on the rate implicit in the lease or the Hospital's incremental borrowing rate.

9. Compensated absences

The Hospital provides paid time off to provide employees with a flexible and equitable means to use paid time off away from work in a manner that best suits their personal needs. Hospital employees earn paid time off at varying rates depending upon years of service and hours worked. Paid time off benefits vest to the employees. Employees have the option to sell back a portion of accumulated paid time off benefits annually. Any unused paid time off benefits upon termination of employment will be paid out to the employee.

Employees are also eligible for extended illness bank (EIB) benefits which can be used in the event of medical leave. EIB benefits are available after 24 consecutive hours of missed work. EIB benefits vest to the employee but any unused EIB benefits are not paid out upon termination of employment. The Hospital estimates a liability for vested EIB benefits that are anticipated to be used in future years based on historical usage by employees.

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

10. Grants and contributions

From time to time, the Hospital receives grants and contributions. 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.

11. Restricted resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

12. Net position

Net position of the Hospital is presented in the following two components.

Net position invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation and amortization and reduced by the current balances of any outstanding balances used to finance the purchase or construction of those assets.

Unrestricted net position - Unrestricted net position is the remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

13. Operating revenues and expenses

The Hospital'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, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

14. 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.

15. Charity care

The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

16. Income taxes

The Hospital is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 115 of the Code and is not required to file federal income tax returns.

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

17. Adoption of accounting standard pronouncement

Effective July 1, 2024, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. 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 application as of the beginning of the earliest period presented (i.e., July 1, 2023). Comparative prior year financial statements have been adjusted to apply this standard retrospectively, which resulted in a beginning net position adjustment of $44,000. See Note N for amounts restated

18. Subsequent events

The Hospital 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. See Note M for subsequent events reported.

Note B - Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital 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 management's best estimate of the 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 - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital'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 Hospital's Medicare cost reports have been audited or reviewed by the Medicare contractor through June 30, 2023.

Medicaid - Impatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment.

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.

Note B - Net Patient Service Revenue - Continued

A summary of Hospital gross and net patient service revenue is as follows:

	2025	2024
Gross patient service revenue	$5,867,622	$6,058,131
Deductions from patient service revenue		
Medicare and Medicaid contractual adjustments	58,807	(876)
Other contractuals	(652,610)	(722,207)
Provision for bad debts	(238,237)	(351,249)
Charity care	(56,600)	(29,792)
Net patient service revenue	$4,978,982	$4,954,007

Revenue from the Medicare and Medicaid programs accounted for approximately 73 and 2 percent, respectively, of the Hospital's net patient service revenue during 2025, and 74 and 3 percent, respectively, of the Hospital's net patient service revenue during 2024. 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 could change in the near term.

Note C - Capital Assets

	Balance June 30, 2024	Transfers and additions	Retirements	Balance June 30, 2025
Capital assets not being depreciated				
Land	$ 12,137	$ -	$ -	$ 12,137
Projects in progress	20,425	(20,425)		
Total capital assets not being depreciated	32,562	(20,425)	-	12,137
Capital assets being depreciated				
Land improvements	41,537			41,537
Buildings and fixed equipment	1,088,025			1,088,025
Movable equipment	1,588,189	36,629		1,624,818
Total capital assets being depreciated	2,717,751	36,629	-	2,754,380
Less accumulated depreciation				
Land improvements	23,888	2,146		26,034
Buildings and fixed equipment	789,299	38,474		827,773
Movable equipment	1,225,813	66,723		1,292,536
Total accumulated depreciated	2,039,000	107,343	-	2,146,343
Total capital assets being depreciated, net	678,751	(70,714)	-	608,037
Leased assets being amortized				
Equipment	328,030	-	-	328,030
Less accumulated amortization				
Equipment	246,022	82,008	-	328,030
Total lease assets being amortized, net	82,008	(82,008)	-	-
Capital assets, net	$ 793,321	$ (173,147)	$ -	$ 620,174

Note C - Capital Assets - Continued

	Balance June 30, 2023	Transfers and additions	Retirements	Balance June 30, 2024
Capital assets not being depreciated				
Land	$ 12,137	$ -	$ -	$ 12,137
Projects in progress	29,106	(8,681)		20,425
Total capital assets not being depreciated	41,243	(8,681)	-	32,562
Capital assets being depreciated				
Land improvements	26,537	15,000		41,537
Buildings and fixed equipment	1,088,025			1,088,025
Movable equipment	1,385,147	203,042		1,588,189
Total capital assets being depreciated	2,499,709	218,042	-	2,717,751
Less accumulated depreciation				
Land improvements	22,210	1,678		23,888
Buildings and fixed equipment	747,299	42,000		789,299
Movable equipment	1,174,174	51,639		1,225,813
Total accumulated depreciated	1,943,683	95,317	-	2,039,000
Total capital assets being depreciated, net	556,026	122,725	-	678,751
Leased assets being amortized				
Equipment	328,030	-	-	328,030
Less accumulated amortization				
Equipment	136,679	109,343	-	246,022
Total lease assets being amortized, net	191,351	(109,343)	-	82,008
Capital assets, net	$ 788,620	$ 4,701	$ -	$ 793,321

Note D - Cash and Deposits

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits in excess of FDIC coverage at any given time, and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

At June 30, 2025, the carrying amount and book value of the Hospital's deposits with financial institutions was $95,011 and the bank balances were $234,310. All of the bank balances were covered by FDIC insurance.

Note E - Notes Payable to Bank

The note payable to bank consists of a line-of-credit with a $150,000 credit limit. Interest accrues at the rate of 7.75 percent on the unpaid principal balance and is due, together with the unpaid principal balance, on September 22, 2025. The note is secured by a mortgage on the Hospital facility. See Note M for extension of the line-of-credit.

The following is a summary of changes in notes payable to bank:

Outstanding at July 1, 2023	$ 145,705
Principal payments on line-of-credit	(25,000)
Outstanding at June 30, 2024	120,705
Principal payments on line-of-credit	(25,000)
Outstanding at June 30, 2025	$ 95,705

Note F - Leases

The Hospital leases equipment under a lease agreement. Lease liabilities are summarized as follows:

	2025	2024
Equipment lease liability; implied interest rate of 6.00%; payable in monthly installments of $8,675 through September 2025	$ 25,767	$ 125,064
Less current maturities of lease liabilities	25,767	99,297
Lease liabilities, net of current maturities	$ -	$ 25,767

The following is a summary of changes in lease liabilities:

Outstanding at July 1, 2023	$ 218,593
Principal payments	(93,529)
Outstanding at June 30, 2024	125,064
Principal payments	(99,297)
Outstanding at June 30, 2025	$ 25,767

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

	Principal	Interest	Total
2026	$ 25,767	$ 258	$ 26,025

Note F - Leases - Continued

Rental expense for all leases consisted of the following:

	2025	2024
Amortization of leased assets	$ 82,008	$ 109,343
Interest on lease liabilities	4,803	10,571
Short-term leases	14,503	21,971
	$ 101,314	$ 141,885

Note G - Interest Expense

Total interest costs of the Hospital are as follows:

	2025	2024
Total interest incurred	$ 12,707	$ 19,978

Note H - Accrued Compensated Absences

Accrued compensated absences consist of the following:

	2025	2024
Estimated compensated absences	$ 131,108	$ 124,905
Less current portion	(102,108)	(98,905)
Noncurrent portion of accrued compensated absences	$ 29,000	$ 26,000

The following is a summary of the changes in accrued compensated absences:

Accrued compensated absences at July 1, 2023	$ 135,976
Net change	(11,071)
Accrued compensated absences at June 30, 2024	124,905
Net change	6,203
Accrued compensated absences at June 30, 2025	$ 131,108

Note I - Retirement Plan

The Hospital offers a 403(b) tax sheltered annuity plan to employees. Currently, the Hospital does not make contributions on behalf of the employees. Employees are allowed to make elective or after-tax contributions to the plan. There are certain limitations imposed by the IRS for the total amount of annual contributions that may be made to an employee's 403(b) account and limits on the amount of elective deferrals that employees may make to a 403(b) plan. Distributions may generally be made because of the employee's death, disability, severance from employment, attainment of age 59-1/2 or, in the case of salary reduction contributions, financial hardship.

Note J - Concentration of Credit Risk

The Hospital is located in Sedan, Kansas. The Hospital 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 is as follows:

	2025	2024
Medicare and Medicaid	39 %	40 %
Other third-party payors	33	23
Patients	28	37
	100 %	100 %

Note K - Other Related-Party Transactions

The Hospital has entered into a management and operating agreement with Jane Phillips Medical Center. The Hospital incurred expenses of $88,876 and $78,296 for these services for the years ended June 30, 2025 and 2024, respectively. At June 30, 2025 and June 30, 2024, the Hospital owed $91,985 and $66,328, respectively, to Jane Phillips Medical Center. The amounts owed are included in accounts payable on the statements of net position.

Note L - Risk Management

For the years ended June 30, 2025 and 2024, the Hospital was insured for hospital 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 Hospital 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 Hospital 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. All coverage is on a claims-made basis.

The above policies were renewed on January 1, 2025, for the policy period from January 1, 2025 to January 1, 2026.

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

Note M - Subsequent Events

Subsequent to year-end, the Hospital extended the $150,000 line-of-credit with a local bank through September 22, 2026, and made a $50,000 principal payment towards the outstanding balance plus an interest payment. Interest accrues on the line-of-credit at 7.75 percent per annum.

Subsequent to year-end, the Hospital entered into two separate lease agreements for medical equipment. The first lease has a term of 36 months with a monthly lease payment of $1,898 and the second lease has a term of 60 months with a monthly lease payment of $11,250.

Note N - Adoption of New Accounting Standard

The Hospital adopted GASB Statement No. 101, *Compensated Absences* (GASB 101) as of July 1, 2024. The following changes were made to the June 30, 2024 financial statements in adoption of GASB 101:

	Amount as previously reported	Change in accounting principle	Amount as restated
Statement of Net Position			
Liabilities and net position			
Accrued compensated absences	$ 84,905	$ 14,000	$ 98,905
Total current liabilities	1,042,915	14,000	1,056,915
Accrued compensated absences, net of current portion		26,000	26,000
Total noncurrent liabilities	25,767	26,000	51,767
Total liabilities	1,068,682	40,000	1,108,682
Unrestricted net position	227,796	(40,000)	187,796
Total net position	896,053	(40,000)	856,053
Statement of Revenues, Expenses, and Changes in Net Position			
Operating expenses			
Salaries and wages	1,980,996	(4,000)	1,976,996
Total operating expenses	5,579,906	(4,000)	5,575,906
Operating loss	(578,770)	4,000	(574,770)
Excess of expenses over revenues before capital grants and contributions	(373,743)	4,000	(369,743)
Change in net position	(238,023)	4,000	(234,023)
Statement of Cash Flows			
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating loss	(578,770)	4,000	(574,770)
Changes in			
Accounts payable and accrued expenses	81,478	(4,000)	77,478

Supplementary Information

Sedan City Hospital
Patient Service Revenue
Years ended June 30, 2025 and 2024

	2025			2024		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Gross patient service revenue						
Emergency room	$ 303	$ 1,310,731	$ 1,311,034	$ 33,553	$ 1,275,274	$ 1,308,827
Routine care and observation	410,077	261,410	671,487	515,318	117,930	633,248
Central supply	5,573	29,156	34,729	30,110	29,916	60,026
Laboratory	137,536	781,458	918,994	186,380	776,034	962,414
Pharmacy	122,284	345,235	467,519	191,048	321,036	512,084
Therapy services	117,609	749,699	867,308	132,818	825,126	957,944
Radiology	78,070	1,293,916	1,371,986	89,639	1,131,767	1,221,406
Respiratory therapy	47,907	6,108	54,015	65,497	7,798	73,295
Wound care	1,678	168,872	170,550	14,079	314,808	328,887
Gross patient service revenue	$ 921,037	$ 4,946,585	5,867,622	$ 1,258,442	$ 4,799,689	6,058,131
Less adjustments						
Third-party contractual allowances			593,803			723,083
Charity care			56,600			29,792
Provision for bad debts			238,237			351,249
Total adjustments			888,640			1,104,124
Net patient service revenue			$ 4,978,982			$ 4,954,007

Sedan City Hospital
Other Revenue
Years ended June 30, 2025 and 2024

	2025	2024
Other revenue		
Cafeteria	$ 4,373	$ 7,012
Pharmacy rebates	3,163	2,360
Medical records		120
Administration	4,148	19,637
Rental income	18,000	18,000
Total other revenue	$ 29,684	$ 47,129

Sedan City Hospital
Operating Expenses by Functional Division
Years ended June 30, 2025 and 2024

	2025			2024		
	Salaries	Supplies and expenses	Total	Salaries	Supplies and expenses	Total
Revenue producing departments						
Emergency room	$ 170,816	$ 889,446	$ 1,060,262	$ 145,288	$ 813,264	$ 958,552
Routine care	828,521	199,003	1,027,524	810,146	366,822	1,176,968
Central supply	18,043	55,470	73,513	18,087	63,473	81,560
Laboratory	188,641	259,104	447,745	218,945	272,448	491,393
Pharmacy	7,759	149,298	157,057	9,110	143,952	153,062
Therapies		228,518	228,518		248,049	248,049
Radiology	155,574	54,820	210,394	155,054	72,632	227,686
Wound care		72,694	72,694	1,960	98,998	100,958
	1,369,354	1,908,353	3,277,707	1,358,590	2,079,638	3,438,228
Overhead departments						
Dietary	104,307	26,115	130,422	106,635	30,098	136,733
Housekeeping	57,847	10,900	68,747	60,489	12,347	72,836
Laundry and linen		22,659	22,659		22,174	22,174
Medical records	104,582	7,678	112,260	103,537	2,770	106,307
Operation of plant	54,503	301,351	355,854	53,457	252,413	305,870
Administrative	313,587	630,872	944,459	294,288	576,646	870,934
Employee benefits		468,585	468,585		418,164	418,164
	634,826	1,468,160	2,102,986	618,406	1,314,612	1,933,018
Depreciation		189,351	189,351		204,660	204,660
Total expenses	$ 2,004,180	$ 3,565,864	$ 5,570,044	$ 1,976,996	$ 3,598,910	$ 5,575,906