**Independent Auditor's Report and Financial Statements**

# Sedan City Hospital

**June 30, 2022 and 2021**

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# Independent Auditor's Report

Board of Trustees
Sedan City Hospital

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying financial statements of the business-type activity of Sedan City Hospital (Hospital), as of and for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, 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 A16 to the financial statements, in 2022 the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87, "Leases." Our opinion is not modified with respect 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 will always detect a material misstatement when it exists. The risk of not detecting a material


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misstatements 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
November 18, 2022

**Financial Statements**

**Sedan City Hospital**
**Statements of Net Position**
**June 30,**

**Assets**

| | 2022 | 2021 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | $ 243,983 | $ 3,300,215 |
| Patient accounts receivable, net of allowance for doubtful accounts of $475,778 in 2022 and $394,553 in 2021 | 499,234 | 656,742 |
| Sales tax and other receivables | 40,127 | 41,135 |
| Grants receivable | 139,152 | |
| Inventories | 199,296 | 190,481 |
| Prepaid expenses | 33,520 | 25,353 |
| Estimated third-party payor settlements | 412,522 | |
| **Total current assets** | 1,567,834 | 4,213,926 |
| **Assets limited as to use** | | |
| Internally designated by the Board | 15,500 | 15,477 |
| **Capital assets - net** | 563,186 | 254,341 |
| **Right-of-use lease assets** | 300,694 | 121,220 |
| **Other assets** | 9,500 | 9,500 |
| **Total assets** | $ 2,456,714 | $ 4,614,464 |

The accompanying notes are an integral part of these statements.

**Liabilities and Net Position**

| | 2022 | 2021 |
|---|---|---|
| **Current liabilities** | | |
| Accounts payable | $ 504,511 | $ 217,827 |
| Accrued expenses | | |
| Salaries and related benefits | 145,243 | 36,317 |
| Vacation | 87,679 | 89,549 |
| Other | 14,576 | 13,179 |
| Unearned CARES Act revenue | | 1,638,555 |
| Medicare accelerated payments | 30,063 | 750,000 |
| Estimated third-party payor settlements | 100,000 | 448,286 |
| Current maturities of right-of-use lease liabilities | 88,095 | 106,037 |
| Current maturities of note payable to bank | | 29,408 |
| **Total current liabilities** | 970,167 | 3,329,158 |
| **Noncurrent liabilities** | | |
| Medicare accelerated payments | | 215,723 |
| Right-of-use lease liabilities, net of current maturities | 218,593 | 23,389 |
| **Total noncurrent liabilities** | 218,593 | 239,112 |
| **Total liabilities** | 1,188,760 | 3,568,270 |
| **Net position** | | |
| Invested in capital assets, net of related debt | 557,192 | 246,135 |
| Unrestricted | 710,762 | 800,059 |
| **Total net position** | 1,267,954 | 1,046,194 |
| **Total liabilities and net position** | $ 2,456,714 | $ 4,614,464 |

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

| | 2022 | 2021 |
|---|---|---|
| **Operating revenues** | | |
| Net patient service revenue | $ 5,277,680 | $ 4,506,552 |
| Other | 29,071 | 27,489 |
| **Total operating revenues** | 5,306,751 | 4,534,041 |
| **Operating expenses** | | |
| Salaries and wages | 2,105,292 | 1,974,597 |
| Employee benefits | 463,163 | 437,183 |
| Supplies and other | 2,851,245 | 2,527,861 |
| Depreciation and amortization | 165,712 | 163,203 |
| **Total operating expenses** | 5,585,412 | 5,102,844 |
| **Operating loss** | (278,661) | (568,803) |
| **Nonoperating revenues (expenses)** | | |
| Sales tax revenue | 175,584 | 168,425 |
| Noncapital grants and contributions | 12,612 | 17,370 |
| Noncapital grants from CARES Act | 175,832 | 661,946 |
| SBA PPP loan forgiveness | | 468,351 |
| Gain on disposal of leased assets | 3,900 | |
| Investment income | 16,022 | 19,259 |
| Interest expense | (8,529) | (30,731) |
| **Total nonoperating revenues (expenses)** | 375,421 | 1,304,620 |
| **Excess of revenues over expenses before capital grants and contributions** | 96,760 | 735,817 |
| **Capital grants and contributions from CARES Act** | 125,000 | |
| **Change in net position** | 221,760 | 735,817 |
| **Net position at beginning of year** | 1,046,194 | 310,377 |
| **Net position at end of year** | $ 1,267,954 | $ 1,046,194 |

The accompanying notes are an integral part of these statements.

**Sedan City Hospital**
**Statements of Cash Flows**
**Years ended June 30,**

| | 2022 | 2021 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from and on behalf of patients | $ 3,738,720 | $ 4,468,918 |
| Payments to or on behalf of employees | (2,460,002) | (2,407,074) |
| Payments to suppliers | (2,581,543) | (2,482,503) |
| Other receipts and payments | (109,073) | 18,933 |
| **Net cash used by operating activites** | (1,411,898) | (401,726) |
| **Cash flows from noncapital financing activities** | | |
| Noncapital grants and contributions | 12,612 | 21,969 |
| Proceeds from sales tax | 175,584 | 168,425 |
| Advances repaid | (1,462,723) | |
| Principal payments on notes payable to bank | (29,408) | (114,146) |
| Interest paid on notes payable to bank | (300) | (21,507) |
| **Net cash provided (used) by noncapital financing activities** | (1,304,235) | 54,741 |
| **Cash flows from capital and related financing activities** | | |
| Purchase of capital assets | (372,497) | (20,104) |
| Capital grants and contributions | 125,000 | |
| Principal payments on right-of-use lease liabilities | (100,372) | (100,876) |
| Interest paid on right-of-use lease liabilities | (8,229) | (9,224) |
| **Net cash used by capital and related financing activities** | (356,098) | (130,204) |
| **Cash flows from investing activities** | | |
| Investment income received | 16,022 | 24,852 |
| **Net cash provided by investing activities** | 16,022 | 24,852 |
| **Change in cash and cash equivalents** | (3,056,209) | (452,337) |
| **Cash and cash equivalents at beginning of year** | 3,315,692 | 3,768,029 |
| **Cash and cash equivalents at end of year** | $ 259,483 | $ 3,315,692 |
| **Reconciliation of cash and cash equivalents to statements of net position** | | |
| Cash and cash equivalents in current assets | $ 243,983 | $ 3,300,215 |
| Cash internally designated by Board | 15,500 | 15,477 |
| | $ 259,483 | $ 3,315,692 |

The accompanying notes are an integral part of these statements.

**Sedan City Hospital**
**Statements of Cash Flows - Continued**
**Years ended June 30,**

| | 2022 | 2021 |
|---|---|---|
| **Reconciliation of operating loss to net cash used by operating activities** | | |
| Operating loss | $ (278,661) | $ (568,803) |
| Adjustments to reconcile operating loss to net cash used by operating activities | | |
| Depreciation and amortization | 165,712 | 163,203 |
| Provision for bad debts | 325,185 | 322,967 |
| **Changes in** | | |
| Patient accounts receivable | (167,677) | (528,441) |
| Grants receivable | (139,152) | |
| Inventory and prepaid expenses | (16,982) | (33,818) |
| Other assets | 1,008 | (8,556) |
| Accounts payable and accrued expenses | 395,137 | 83,882 |
| Estimated third-party payor settlements and advances related to Medicare accelerated payments | (1,696,468) | 167,840 |
| **Net cash used by operating activites** | $ (1,411,898) | $ (401,726) |

The accompanying notes are an integral part of these statements.

# Sedan City Hospital
# Notes to Financial Statements
# June 30, 2022 and 2021

**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 market.

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 and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

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

8. Right-of-use lease assets and liabilities

Right-of-use lease assets and liabilities consist of leased equipment with terms greater than twelve months are recorded at present value of the lease payments over the lease term using the implicit return of the lease. Rental escalation clauses and renewal options are factored into the determination of lease payments when appropriate. The Hospital's leases do not contain variable lease payments or residual value guarantees. Lease and nonlease components of contracts are not separated. Right-of-use lease assets are amortized on the straight-line method over the lease term. The amortization is included with depreciation and amortization on the statement of revenues, expenses, and changes in net position.

9. 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.

10. 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.

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

11. 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 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."

12. 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.

13. 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.

14. 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.

15. 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.

16. Adoption of accounting pronouncements

In 2022, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87, "Leases," which revised existing standards on lease accounting and financial reporting. Comparative prior year financial statements have been adjusted to apply this standard retrospectively. No changes to prior period net position were necessary from adoption of this standard.

**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, 2020.

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.

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

| | 2022 | 2021 |
|---|---|---|
| Gross patient service revenue | $ 6,491,495 | $ 6,283,284 |
| Deductions from patient service revenue | | |
| Medicare and Medicaid contractual adjustments | (14,496) | (586,278) |
| Change in estimate related to prior year Medicare cost report settlements | | |
| Other contractuals | (826,612) | (813,009) |
| Provision for bad debts | (325,185) | (322,967) |
| Charity care | (47,522) | (54,478) |
| Net patient service revenue | $ 5,277,680 | $ 4,506,552 |

Revenue from the Medicare and Medicaid programs accounted for approximately 74 and 2 percent, respectively, of the Hospital's net patient service revenue during 2022, and 78 and 1 percent, respectively, of the Hospital's net patient service revenue during 2021. 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 and Right-of-Use Lease Assets**

Capital assets and right-of-use lease assets consist of the following:

| | Balance June 30, 2021 | Additions | Disposals | Balance June 30, 2022 |
|---|---|---|---|---|
| **Capital Assets** | | | | |
| Land, non depreciable | $ 12,137 | $ - | $ - | $ 12,137 |
| Land improvements | 26,537 | | | 26,537 |
| Buildings and fixed | 833,458 | 206,640 | | 1,040,098 |
| Equipment | 1,183,380 | 127,515 | | 1,310,895 |
| | 2,055,512 | 334,155 | - | 2,389,667 |
| Less accumulated depreciation and amortization | | | | |
| Land improvements | 21,667 | 272 | | 21,939 |
| Buildings and fixed | 662,516 | 40,604 | | 703,120 |
| Equipment | 1,116,988 | 22,776 | | 1,139,764 |
| | 1,801,171 | 63,652 | - | 1,864,823 |
| Projects in progress | | 38,342 | | 38,342 |
| Capital assets, net | $ 254,341 | $ 308,845 | $ - | $ 563,186 |
| **Right-of-Use Lease Assets** | | | | |
| Equipment | $ 398,532 | $ 328,030 | $ 398,532 | $ 328,030 |
| Less accumulated amortization | 277,312 | 102,060 | 352,036 | 27,336 |
| Right-of-use lease assets, net | $ 121,220 | $ 225,970 | $ 46,496 | $ 300,694 |

**Note C - Capital Assets and Right-of-Use Lease Assets - Continued**

| | Balance June 30 2020 | Additions | Disposals | Balance June 30, 2021 |
|---|---|---|---|---|
| **Capital Assets** | | | | |
| Land, non-depreciable | $ 12,137 | $ - | $ - | $ 12,137 |
| Land improvements | 26,537 | | | 26,537 |
| Buildings and fixed | 833,458 | | | 833,458 |
| Equipment | 1,163,276 | 20,104 | | 1,183,380 |
| | 2,035,408 | 20,104 | - | 2,055,512 |
| Less accumulated depreciation and amortization | | | | |
| Land improvements | 21,396 | 271 | | 21,667 |
| Buildings and fixed | 623,496 | 39,020 | | 662,516 |
| Equipment | 1,092,709 | 24,279 | | 1,116,988 |
| Capital assets, net | $ 297,807 | $ (43,466) | $ - | $ 254,341 |
| **Right-of-Use Lease Assets** | | | | |
| Equipment | $ 398,532 | $ - | $ - | $ 398,532 |
| Less accumulated amortization | 177,679 | 99,633 | | 277,312 |
| Right-of-use lease assets, net | $ 220,853 | $ (99,633) | $ - | $ 121,220 |

**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, 2022, the carrying amount and book value of the Hospital's deposits with financial institutions was $259,183 and the bank balances were $299,738. All of the bank balances were covered by FDIC insurance or an insured cash sweep account.

**Note E - Software License Agreements**

The Hospital contracts with vendors for software under subscription-based arrangements. Total expense under these arrangements for the years ended June 30, 2022 and 2021, was $148,033 and $168,548, respectively. Future minimum commitments under the subscription-based arrangements are as follows:

| | |
|---|---|
| 2023 | $169,130 |
| 2024 | 172,553 |
| 2025 | 172,553 |
| 2026 | 86,277 |
| | $600,513 |

**Note F - Leases**

Right-of-use lease liabilities are summarized as follows:

| | 2022 | 2021 |
|---|---|---|
| Right-of-use lease liability; implied interest rate of 5.00%; payable in monthly installments of $9,175 through September 2022, lease remeasured March 2022 due to a change in lease term and monthly installments | $ - | $ 129,426 |
| Right-of-use lease liability; implied interest rate of 6.00%; payable in monthly installments of $8,675 through September 2025 | 306,688 | |
| | 306,688 | 129,426 |
| Less current portion | 88,095 | 106,037 |
| Noncurrent portion | $ 218,593 | $ 23,389 |

The following is a summary of changes in right-of-use lease liabilities:

| | Balance June 30, 2021 | Additions | Payments | Remeasurement | Balance June 30, 2022 |
|---|---|---|---|---|---|
| Right-of-use lease liabilities | $129,426 | $328,030 | $100,372 | $ 50,396 | $306,688 |

| | Balance June 30, 2020 | Additions | Payments | Remeasurement | Balance June 30, 2021 |
|---|---|---|---|---|---|
| Right-of-use lease liabilities | $230,302 | $ - | $100,876 | $ - | $129,426 |

**Note F - Leases - Continued**

Scheduled right-of-use lease liability payments for the years ending June 30 are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2023 | $ 88,095 | $ 16,005 | $ 104,100 |
| 2024 | 93,529 | 10,571 | 104,100 |
| 2025 | 99,297 | 4,803 | 104,100 |
| 2026 | 25,767 | 258 | 26,025 |
| | $ 306,688 | $ 31,637 | $ 338,325 |

Rental expense for all leases consisted of the following:

| | 2022 | 2021 |
|---|---|---|
| Amortization of leased assets | $ 102,060 | $ 99,633 |
| Interest on lease liabilities | 8,229 | 9,224 |
| Short-term leases | 16,036 | 23,991 |
| | $ 126,325 | $ 132,848 |

**Note G - Notes Payable to Bank**

Notes payable to bank are summarized as follows:

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Note payable to bank; interest rate of 6.00%; payable in monthly installments of $9,973 through September 2021 | $ - | $ 29,408 |
| Less current portion | | 29,408 |
| Noncurrent portion | - | $ - |

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

| | Balance June 30, 2021 | Additions | Reductions | Balance June 30, 2022 |
|---|---|---|---|---|
| Note payable | $ 29,408 | $ - | $ 29,408 | $ - |

| | Balance June 30, 2020 | Additions | Reductions | Balance June 30, 2021 |
|---|---|---|---|---|
| Note payable | $ 143,554 | $ - | $ 114,146 | $ 29,408 |

**Note H - SBA PPP Notes Payable to Bank**

The Hospital was the recipient of an SBA PPP loan from the Small Business Administration (SBA) Paycheck Protection Program (PPP) which was administered by a SBA approved partner. The loan was issued on May 8, 2020, in the amount of $463,752 and accrued interest at 1.00 percent and was fully guaranteed by the Federal government. The SBA approved the Hospital's loan forgiveness application on May 1, 2021, forgiving the entire loan balance of $463,752 plus $4,599 of accrued interest. The forgiveness is included in non-operating revenues in the statement of revenues, expenses, and changes in net position.

**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:

| | 2022 | 2021 |
|---|---|---|
| Medicare and Medicaid | 29 % | 40 % |
| Other third-party payors | 26 | 27 |
| Patients | 45 | 33 |
| | 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 $66,745 and $59,431 for these services for the years ended June 30, 2022 and 2021, respectively. At June 30, 2022 and June 30, 2021, the Hospital owed $15,418 and $8,314, 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, 2022 and 2021, 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.

**Note L - Risk Management - Continued**

The above policies were renewed on January 1, 2022, for the policy period from January 1, 2022 to January 1, 2023.

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 - Medicare Accelerated Payments**

The CARES Act provided for a temporary expansion of Medicare's ability to provide accelerated (advance) payments due to claim disruption or unusual operating circumstances. In April 2020, the Hospital requested and received advances under this program in response to the coronavirus pandemic totaling $1,124,400. The Continuing Appropriations Act, 2021 and Other Extensions Act amended the repayment (recoupment) terms of the accelerated payments. Recoupment began one year from the date payments were received. For the first 11 months, the recoupment rate was 25 percent of Medicare payments. The recoupment rate increased to 50 percent for the next 6 months. If the full amount has not been recovered during the recoupment period, the remaining portion will be due in full on demand. If the demanded amount is not paid within 30 days, interest will be charged at 4 percent.

The Hospital has recorded the accelerated payment liabilities as current and noncurrent based on estimated payments to be recouped using prior claim reimbursement history.

The following is a summary of Medicare accelerated payments activity:

| | Balance June 30, 2021 | Additions | Recoupments | Balance June 30, 2022 |
|---|---|---|---|---|
| Medicare accelerated payments | $ 965,723 | $ - | $ 935,660 | $ 30,063 |

| | Balance June 30, 2020 | Additions | Recoupments | Balance June 30, 2021 |
|---|---|---|---|---|
| Medicare accelerated payments | $ 1,124,400 | $ - | $ 158,677 | $ 965,723 |

**Note N - Unearned CARES Act Revenue**

Unearned revenue consists of federal financial assistance through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, received from the United States Department of Health and Human Services (HHS). The provider relief funds are to be used to prevent, prepare for, and respond to coronavirus and to reimburse the Hospital for health care related expenses and lost revenues as defined by HHS, that are attributable to coronavirus, until such eligibility requirements are met. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as unearned income until the conditions have been satisfied. In 2021, the Hospital determined based on current guidance from HHS and reporting in the provider relief portal, that the conditions had been met recognizing revenue of $661,946 related to the provider relief funds. These amounts are included in nonoperating revenues and expenses as noncapital grants from the CARES Act. The terms and conditions of

**Note N - Unearned CARES Act Revenue - Continued**

the programs are complex and subject to interpretation and evolving guidance. HHS has indicated that amounts retained by hospitals may be subject to audits in the future and potential recoupments of amounts claimed as revenue. As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term. The following table provides information about significant changes in unearned revenue for the years ended June 30:

| | 2022 | 2021 |
|---|---|---|
| Unearned revenue at beginning of year | $ 1,638,555 | $ 2,294,908 |
| KDHE frontline healthcare worker funds received | 99,493 | |
| HHS Provider relief funds returned | (1,644,148) | |
| Reclassification to grants receivable | 5,593 | |
| Interest earned on provider relief funds | | 5,593 |
| Funds recognized to income | (99,493) | (661,946) |
| Unearned revenue at end of year | $ - | $ 1,638,555 |

COVID-19 grant revenue consists of the following for the years ended June 30:

| | 2022 | 2021 |
|---|---|---|
| Provider relief funds | $ - | $ 661,946 |
| KDHE frontline healthcare worker funds | 99,493 | |
| Other COVID-19 related grants | 201,339 | |
| | 300,832 | 661,946 |
| Less capital grants and contributions | (125,000) | |
| noncapital grants and contributions | $ 175,832 | $ 661,946 |

**Note O - Subsequent Events**

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

Subsequent to year-end, the Hospital opened a $150,000 line of credit with a local bank and has drawn $125,000 on this line of credit. Interest accrues on the line of credit at 6.5 percent per annum.

**Supplementary Information**

**Sedan City Hospital**
**Patient Service Revenue**
**Years ended June 30,**

| | 2022 | | |
|---|---|---|---|
| | Inpatient | Outpatient | Total |
| Daily patient services | | | |
| Emergency room | $ 59,523 | $ 1,333,734 | $ 1,393,257 |
| Routine care | 478,971 | 147,839 | 626,810 |
| | 538,494 | 1,481,573 | 2,020,067 |
| Other professional services | | | |
| Central supply | 9,726 | 22,983 | 32,709 |
| Laboratory | 238,806 | 1,009,808 | 1,248,614 |
| Occupational therapy | | 10,081 | 10,081 |
| Pharmacy | 200,098 | 210,866 | 410,964 |
| Therapy services | 151,952 | 757,905 | 909,857 |
| Radiology | 150,137 | 1,298,678 | 1,448,815 |
| Respiratory therapy | 81,557 | 6,814 | 88,371 |
| Wound care | 46,487 | 275,530 | 322,017 |
| | 878,763 | 3,592,665 | 4,471,428 |
| Gross patient service revenue | $ 1,417,257 | $ 5,074,238 | 6,491,495 |
| Less adjustments | | | |
| Third-party contractual allowances | | | 841,108 |
| Charity care | | | 47,522 |
| Provision for bad debts | | | 325,185 |
| Total adjustments | | | 1,213,815 |
| Net patient service revenue | | | $ 5,277,680 |

**Sedan City Hospital**
**Other Revenue**
**Years ended June 30,**

| | 2022 | 2021 |
|---|---|---|
| Other revenue | | |
| Cafeteria | $ 3,460 | $ 5,516 |
| Central stores | 210 | 3,604 |
| Pharmacy rebates | 1,020 | 1,705 |
| Medical records | 180 | 30 |
| Administration | 4,701 | 134 |
| Rental income | 19,500 | 16,500 |
| Total other revenue | $ 29,071 | $ 27,489 |

**Sedan City Hospital**
**Operating Expenses by Functional Division**
**Years ended June 30,**

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Salaries | Supplies and expenses | Total | Salaries | Supplies and expenses | Total |
| Daily patient services | | | | | | |
| Emergency room | $ 335,236 | $ 436,232 | $ 771,468 | $ 368,972 | $ 392,269 | $ 761,241 |
| Routine care | 739,693 | 403,650 | 1,143,343 | 696,063 | 275,702 | 971,765 |
| | 1,074,929 | 839,882 | 1,914,811 | 1,065,035 | 667,971 | 1,733,006 |
| Other professional services | | | | | | |
| Central supply | 18,273 | 58,048 | 76,321 | 18,177 | 41,113 | 59,290 |
| Laboratory | 223,237 | 305,952 | 529,189 | 194,673 | 318,585 | 513,258 |
| Pharmacy | 8,587 | 115,419 | 124,006 | 8,522 | 111,059 | 119,581 |
| Therapies | | 253,885 | 253,885 | | 263,594 | 263,594 |
| Radiology | 164,224 | 150,037 | 314,261 | 122,186 | 169,977 | 292,163 |
| Wound care | 4,520 | 110,818 | 115,338 | | 76,573 | 76,573 |
| | 418,841 | 994,159 | 1,413,000 | 343,558 | 980,901 | 1,324,459 |
| General services | | | | | | |
| Dietary | 103,320 | 26,829 | 130,149 | 85,138 | 27,222 | 112,360 |
| Housekeeping | 53,862 | 14,752 | 68,614 | 51,681 | 12,729 | 64,410 |
| Laundry and linen | | 19,342 | 19,342 | | 17,349 | 17,349 |
| Medical records | 100,743 | 2,721 | 103,464 | 93,058 | 2,823 | 95,881 |
| Operation of plant | 59,969 | 306,807 | 366,776 | 61,460 | 296,475 | 357,935 |
| | 317,894 | 370,451 | 688,345 | 291,337 | 356,598 | 647,935 |
| Administrative services | | | | | | |
| Administrative | 293,628 | 646,753 | 940,381 | 274,667 | 522,391 | 797,058 |
| Employee benefits | | 463,163 | 463,163 | | 437,183 | 437,183 |
| | 293,628 | 1,109,916 | 1,403,544 | 274,667 | 959,574 | 1,234,241 |
| Depreciation | | 165,712 | 165,712 | | 163,203 | 163,203 |
| Total expenses | $ 2,105,292 | $ 3,480,120 | $ 5,585,412 | $ 1,974,597 | $ 3,128,247 | $ 5,102,844 |