Independent Auditor's Report and Financial Statements

Southwest Medical Center

December 31, 2022 and 2021

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Southwest Medical Center
Management's Discussion and Analysis
Years ended December 31, 2022 and 2021

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, 2022 and 2021. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Medical Center's net position, or equity, decreased $11,757,291 or 18.7 percent during 2022 and increased $12,776,497 or 25.5 percent during 2021.

The Medical Center reported a $9,821,668 or 385.4 percent decrease in operating income for 2022 and a $5,301,287 or 192.6 percent decrease in operating income for 2021.

The net assets of Southwest Medical Center Foundation (the Foundation), a component unit of the Medical Center, decreased $916,295 or 11.8 percent during 2022 and increased $960,316 or 14.2 percent during 2021.

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:

	2022	2021	2020
Assets			
Current assets	$ 28,371,711	$ 40,404,330	$ 41,967,119
Assets limited as to use	37,100,294	33,753,133	33,709,506
Capital assets, net	21,774,559	24,119,868	24,200,472
Total assets	87,246,564	98,277,331	99,877,097
Deferred outflows of resources on advance refunding	672,737	745,903	819,068
Liabilities			
Current liabilities	(19,357,996)	(6,930,133)	(19,347,208)
Long-term obligations		(13,139,712)	(15,879,159)
Total liabilities excluding net pension liability	(19,357,996)	(20,069,845)	(35,226,367)
Deferred inflows of resources on advance refunding	(88,859)	(100,371)	
Net pension liability, net of pension related deferred outflows and deferred inflows of resources	(17,359,530)	(15,982,811)	(15,376,088)
Net position	$ 51,112,916	$ 62,870,207	$ 50,093,710

Cash and cash equivalents in the current asset category decreased by $9,713,864 during 2022 and decreased by $117,147 during 2021.

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

Most of the Medical Center's invested cash is set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets. Although, at the discretion of the Board, they may subsequently be used for other purposes, these assets are reported as internally designated assets limited as to use on the statements of net position. This category of assets increased by $2,889,442 during 2022 and assets remained relatively unchanged during 2021. Net transfers were made from operating cash to this category of assets that totaled $3,600,000 in 2022 and 2021.

In aggregate, the Medical Center's unrestricted cash and invested cash total was $41,139,344 and $47,963,766 as of December 31, 2022 and 2021, respectively. These represent 204 and 237 days, respectively, of cash expenses during each of the years then ended.

The Medical Center's net patient accounts receivable were 54 percent of current assets as of December 31, 2022, 45 percent as of December 31, 2021, and 46 percent as of December 31, 2020. In relation to net patient service revenue, net patient accounts receivable decreased 10.0 percent during 2022, increased 1.1 percent during 2021, and increased 30.9 percent during 2020. The average number of days of net patient revenue represented by them was 87 days, 90 days, and 89 days as of December 31, 2022, 2021, and 2020, respectively.

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

During March 2021, the Medical Center issued $4,650,000 in bonds as a refunding of the remaining 2010A bond issue. No new long-term obligations were incurred during 2022 or 2020.

At the end of 2022, the Medical Center had $21,774,559 in capital assets, net of accumulated depreciation. The total value of capital assets acquired totaled $1,219,608, $3,280,169, and $3,169,807 during 2022, 2021, and 2020, respectively.

The Medical Center's net position decreased $11,757,291 or 18.7 percent during 2022, increased $12,776,497 or 25.5 percent during 2021, and increased $3,033,070 or 6.4 percent during 2020. The percentage of total assets financed with its net position, or equity, was 58.6 percent, 64.0 percent, and 50.2 percent as of December 31, 2022, 2021, and 2020, 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:

	2022	2021	2020
Assets			
Current assets	$ 5,985,600	$ 6,579,909	$ 5,620,369
Capital assets, net	431,685	435,505	441,994
Other assets	736,671	740,980	738,475
Total assets	7,153,956	7,756,394	6,800,838
Liabilities			
Current liabilities	325,474	11,617	16,377
Net assets	$ 6,828,482	$ 7,744,777	$ 6,784,461

The Foundation's current assets consist primarily of investments in marketable securities. The Foundation's net assets decreased $916,295 or 11.8 percent during fiscal year 2022 and increased $960,316 or 14.2 percent during fiscal year 2021. These changes in net assets were primarily influenced by investment market conditions during those years.

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:

	2022	2021	2020
Operating revenues	$ 64,533,609	$ 74,156,182	$ 80,678,409
Operating expenses	(75,526,851)	(76,097,752)	(76,603,661)
Actuarial adjustment to pension expense	(1,376,719)	(606,723)	(1,321,754)
Operating income (loss)	(12,369,961)	(2,548,293)	2,752,994
Interest expense	(410,842)	(544,647)	(568,062)
SBA PPP loan forgiveness		4,729,400	
Noncapital COVID-19 grants	457,625	10,154,822	
Other nonoperating revenues	250,887	467,957	410,791
Capital COVID-19 grants		317,258	
Capital grants and contributions	315,000	200,000	437,347
Change in net position	$ (11,757,291)	$ 12,776,497	$ 3,033,070

The first, and most significant, component of the overall change in the Medical Center's net position is its operating income - generally, the difference between net patient service revenue and the expenses incurred to perform those services. Operating income decreased $9,821,668 during 2022 and decreased $5,301,287 during 2021.

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

	2022	2021	2020
Inpatient services	$ 81,245,145	$ 97,715,008	$ 106,038,574
Outpatient services	113,437,287	112,662,486	99,363,463
Physician services	22,851,272	21,399,431	19,994,905
Gross patient service revenue	217,533,704	231,776,925	225,396,942
Contractual adjustments	(137,928,424)	(140,222,391)	(128,652,636)
Provision for bad debts	(13,526,622)	(15,859,806)	(14,656,307)
Charity care	(1,915,413)	(1,952,649)	(1,963,689)
Net patient service revenue	$ 64,163,245	$ 73,742,079	$ 80,124,310

The Medical Center raised all rates 4.0 percent in January 2022 and 2021. The Medical Center made targeted rate increases in January 2020.

Total inpatient days decreased 10.6 percent and total outpatient registrations increased by 31.2 percent during 2022. Total inpatient days decreased by 14.5 percent and total outpatient registrations increased by 10.5 percent during 2021. These changes to inpatient and outpatient volume in 2022, 2021, and 2020 were directly related to the coronavirus pandemic.

During 2022, one surgeon began practice in January. During 2021, one surgeon began 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 decreased 1.9 percent during 2022 and decreased 0.6 percent during 2021. Together, the provision for bad debts and charity care represented 7.1 percent, 7.7 percent, and 7.4 percent of gross patient service revenue during 2022, 2021, and 2020, respectively.

Employee salaries and wages decreased by $4,304,022 or 12.8 percent during 2022 and decreased by $825,564 or 2.4 percent during 2021. These changes are functions of changes in the number of employees, pay rates, and coronavirus relief compensation. Average pay rates increased by 3 percent and 9 percent during 2022 and 2021, respectively. Total full-time equivalent employees decreased by 45 or 11 percent during 2022 after decreasing by 38 or 8 percent during 2021. The changes in employees during 2022 and 2021 are primarily due to staffing challenges and changes in patient volume.

The cost of employee benefits excluding the pension adjustment was 25 percent and 23 percent of salaries and wages during 2022 and 2021, respectively. Employee benefit expenses excluding the pension adjustment decreased $442,251 during 2022 and decreased $538,755 during 2021. The decreases in 2022 and 2021 are primarily due to the decrease in FTEs.

Supplies and other expenses increased by $3,971,227 or 12.7 percent during 2022 and increased by $460,649 or 1.5 percent during 2021. The increases in 2022 and 2021 were 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:

	2022	2021	2020
Contributions	$ 200	$ 100	$ 5,100
Investment return, net	(700,021)	1,183,353	4,208
Other income	125,860	81,672	70,107
Expenses	(342,334)	(304,809)	(296,315)
Change in net assets	$ (916,295)	$ 960,316	$ (216,900)

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 losses of $813,197 in the year ended June 30, 2022, net realized and unrealized gains of $1,073,320 for the year ended June 30, 2021, and net realized and unrealized losses of $118,712 for the year ended June 30, 2020. These results followed changes in the broad market indices during those years.

Wendling Noe Nelson & Johnson LLC
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Independent Auditor's Report

Board of Trustees
Southwest Medical Center

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, 2022 and 2021, the discretely presented component unit as of and for the years ended June 30, 2022 and 2021, 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, 2022 and 2021, the respective financial position of the discretely presented component unit of the Medical Center as of June 30, 2022 and 2021, 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 and the standards applicable to financial audits contained in 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 Medical Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and the Kansas Municipal Audit and Accounting Guide will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with generally accepted auditing standards and the Kansas Municipal Audit and Accounting Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5 be presented to supplement the basic financial statements. These standards also require that the pension information listed in the table of contents be included to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Medical Center's basic financial statements. The accompanying information on pages 38 through 41 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, information on pages 38 through 41 is 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.

Wendling Noe Nelson : Johnson LLC

Topeka, Kansas
November 3, 2023

Financial Statements

Southwest Medical Center
Statements of Net Position
December 31, 2022 and 2021

Assets and Deferred Outflows of Resources

	2022	2021
Current assets		
Cash and cash equivalents	$ 7,390,457	$ 17,104,321
Assets limited as to use	405,542	403,035
Patient accounts receivable, net of allowance for uncollectible accounts of $4,389,254 in 2022 and $6,683,769 in 2021	15,311,542	18,234,606
Other receivables	23,866	49,065
Estimated third-party payor receivables	1,017,366	22,962
Inventories	1,897,508	1,945,784
Prepaid expenses	2,325,430	2,644,557
Total current assets	28,371,711	40,404,330
Assets limited as to use		
Internally designated	33,748,887	30,859,445
Under indenture agreements - held by trustee	1,404,863	1,392,185
By contributors and grantors for capital acquisitions	2,352,086	1,904,538
	37,505,836	34,156,168
Less amounts required to meet current obligations	405,542	403,035
	37,100,294	33,753,133
Capital assets - net	21,774,559	24,119,868
Total assets	87,246,564	98,277,331
Deferred outflows of resources		
Pension	10,337,437	8,657,718
Advance refunding	672,737	745,903
Total deferred outflows of resources	11,010,174	9,403,621
Total assets and deferred outflows of resources	$ 98,256,738	$ 107,680,952

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2022	2021
Current liabilities		
Current portion of bonds payable	$ 13,092,952	$ 565,000
Accounts payable	2,263,027	2,129,155
Estimated third-party payor payables	1,400,718	254,062
Unearned COVID-19 revenue	38,556	297,838
Other accrued liabilities	77,589	84,151
Accrued salaries and benefits	1,372,858	2,437,715
Accrued compensated absences	952,861	995,776
Accrued interest payable	159,435	166,436
Total current liabilities	19,357,996	6,930,133
Bonds payable, less current portion		13,139,712
Net pension liability	24,889,639	18,062,893
Total liabilities	44,247,635	38,132,738
Deferred inflows of resources		
Pension	2,807,328	6,577,636
Advance refunding	88,859	100,371
Total deferred inflows of resources	2,896,187	6,678,007
Net position		
Invested in capital assets - net of related debt	9,265,485	11,060,688
Restricted		
For debt service	1,404,863	1,392,185
Expendable for capital acquisitions	2,352,086	1,904,538
Unrestricted	38,090,482	48,512,796
Total net position	51,112,916	62,870,207
Total liabilities, deferred inflows of resources, and net position	$ 98,256,738	$107,680,952

Southwest Medical Center
Statements of Financial Position - Discretely Presented Component Unit
Southwest Medical Center Foundation
June 30, 2022 and 2021

	2022	2021
Assets		
Current assets		
Cash	$ 700,508	$ 276,593
Certificates of deposit	400,000	400,000
Short-term investments	4,881,813	5,901,502
Royalties receivable	1,392	
Prepaid expenses	1,887	1,814
Total current assets	5,985,600	6,579,909
Capital assets - net	431,685	435,505
Other assets		
Endowment investments	671,215	670,536
Other investments	65,456	70,444
Total other assets	736,671	740,980
Total assets	$ 7,153,956	$ 7,756,394
Liabilities and Net Assets		
Accrued taxes and other liabilities	$ 325,474	$ 11,617
Net assets		
Without donor restrictions	5,645,020	6,444,518
With donor restrictions		
Purpose restricted	512,247	629,723
Perpetual in nature	671,215	670,536
Total with donor restrictions	1,183,462	1,300,259
Total net assets	6,828,482	7,744,777
Total liabilities and net assets	$ 7,153,956	$ 7,756,394

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, 2022 and 2021

	2022	2021
Operating revenues		
Net patient service revenue	$ 64,163,245	$ 73,742,079
Other	370,364	414,103
Total operating revenues	64,533,609	74,156,182
Operating expenses		
Salaries and wages	29,397,399	33,701,421
Employee benefits	7,312,798	7,755,048
Actuarial adjustment to pension expense	1,376,719	606,723
Supplies and other	35,251,737	31,280,510
Depreciation and amortization	3,564,917	3,360,773
Total operating expenses	76,903,570	76,704,475
Operating loss	(12,369,961)	(2,548,293)
Nonoperating revenues (expenses)		
Investment income	111,318	106,452
Interest expense	(410,842)	(544,647)
Gain on disposal of fixed assets	11,000	311,240
SBA PPP loan forgiveness		4,729,400
Noncapital COVID-19 grants	457,625	10,154,822
Noncapital grants and contributions	128,569	50,265
Total nonoperating revenues (expenses)	297,670	14,807,532
Excess of revenues over (under) expenses before capital grants and contributions	(12,072,291)	12,259,239
Capital COVID-19 grants		317,258
Capital grants and contributions	315,000	200,000
Change in net position	(11,757,291)	12,776,497
Net position at beginning of year	62,870,207	50,093,710
Net position at end of year	$ 51,112,916	$ 62,870,207

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, 2022 and 2021

	2022	2021
Changes in net assets without donor restrictions		
Revenues, gains, and other support		
Contributions	$ 200	$ 100
Oil and gas revenue, net	24,542	16,164
Farm revenue, net	101,318	65,508
Investment return, net		1,019,468
Net assets released from restrictions		35,550
Total revenues, gains, and other support	126,060	1,136,790
Expenses and losses		
Program services	315,000	280,675
Management and general	27,334	24,134
Investment return, net	583,224	
Total expenses and losses	925,558	304,809
Change in net assets without donor restrictions	(799,498)	831,981
Changes in net assets with donor restrictions		
Investment return, net	(116,797)	163,885
Net assets released from restrictions		(35,550)
Change in net assets with donor restrictions	(116,797)	128,335
Change in net assets	(916,295)	960,316
Net assets at beginning of year	7,744,777	6,784,461
Net assets at end of year	$ 6,828,482	$ 7,744,777

The accompanying notes are an integral part of these statements.

Southwest Medical Center
Statements of Cash Flows
Years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 67,238,561	$ 74,831,665
Payments to or on behalf of employees	(37,520,766)	(40,565,502)
Payments for supplies and services	(35,156,607)	(31,084,394)
Other receipts and payments	395,563	444,997
Net cash provided (used) by operating activities	(5,043,249)	3,626,766
Cash flows from noncapital financing activities		
Noncapital grants and contributions	128,569	50,265
COVID-19 noncapital grants received	198,343	338,278
Net cash provided by noncapital financing activities	326,912	388,543
Cash flows from capital and related financing activities		
Acquisition of capital assets	(1,117,228)	(3,280,169)
Insurance proceeds for capital assets		311,240
Proceeds from sale of capital assets	11,000	
Issuance of long-term obligations		4,833,153
Principal payments on long-term obligations	(565,000)	(520,000)
Payment to extinguish debt		(5,251,483)
Payment of bond issuance costs		(84,965)
Interest paid	(402,949)	(492,566)
Capital grants and contributions		200,000
COVID-19 capital grants received		24,174
Net cash used by capital and related financing activities	(2,074,177)	(4,260,616)
Cash flows from investing activities		
Change in assets limited as to use	(12,678)	268,594
Investment income received	109,984	106,142
Net cash provided by investing activities	97,306	374,736
Net change in cash and cash equivalents	(6,693,208)	129,429
Cash and cash equivalents at beginning of year	42,365,602	42,236,173
Cash and cash equivalents at end of year	$ 35,672,394	$ 42,365,602

Southwest Medical Center
Statements of Cash Flows - Continued
Years ended December 31, 2022 and 2021

	2022	2021
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	$ 7,390,457	$ 17,104,321
Cash included in assets limited as to use		
Internally designated	26,244,851	23,356,743
By contributors and grantors for capital acquisitions	2,037,086	1,904,538
Total cash and cash equivalents	$ 35,672,394	$ 42,365,602
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	$ (12,369,961)	$ (2,548,293)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	3,564,917	3,360,773
Provision for bad debts	13,526,622	15,859,806
Physician advance made		(25,000)
Changes in		
Accounts receivable	(10,603,558)	(14,600,327)
Other receivables	25,199	30,894
Inventories and prepaid expenses	367,403	114,934
Accounts payable and accrued expenses	(1,082,842)	997,149
Estimated third-party payor settlements	152,252	(169,893)
Net pension liability, deferred inflows, and deferred outflows related to defined benefit pension plan	1,376,719	606,723
Net cash provided (used) by operating activities	$ (5,043,249)	$ 3,626,766

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, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Change in net assets	$ (916,295)	$ 960,316
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	3,820	6,489
Net realized and unrealized gain/losses on investments	813,197	(1,073,319)
Investment returns restricted for endowment	(679)	(2,505)
Changes in		
Royalties receivable	(1,392)	
Prepaid expenses	(73)	(131)
Other investments	4,988	
Accrued liabilities	313,857	(4,760)
Net cash provided (used) by operating activities	217,423	(113,910)
Cash flows from investing activities		
Proceeds from sales of investments	6,920,692	3,983,684
Purchase of investments	(6,714,200)	(3,842,212)
Net cash provided by investing activities	206,492	141,472
Net change in cash and cash equivalents	423,915	27,562
Cash and cash equivalents at beginning of year	276,593	249,031
Cash and cash equivalents at end of year	$ 700,508	$ 276,593

The accompanying notes are an integral part of these statements.

Southwest Medical Center
Notes to Financial Statements
December 31, 2022 and 2021

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. Deferred outflows of resources and deferred inflows of resources

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

14. Pension plan

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

15. Net position

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

16. Operating revenues and expenses

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

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

17. Net patient service revenue

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

18. Charity care

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

19. Grants and contributions

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

20. Income taxes

The Medical Center is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code. Management is not aware of any uncertainties in income tax positions. Tax years ended on and before December 31, 2018, 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, 2018, are not subject to examination by taxing authorities.

21. Adoption of accounting pronouncements

Effective January 1, 2022, the Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases,* which revised existing standards on lease accounting and financial reporting by establishing a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset. A lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB 87 required a retrospective transition method using the facts and circumstances that existed at the beginning of the earlier period presented (i.e., January 1, 2021). The adoption of this standard did not result in changes to previously reported amounts. The Medical Center assessed leases determining they were not material to the financial statements and, therefore, no lease assets or liabilities were recorded as a result of implementing GASB 87.

22. 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 30, 2018.

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, 2022 and 2021, follows:

	2022	2021
Gross patient service revenue	$ 217,533,704	$ 231,776,925
Contractual adjustments	(137,928,424)	(140,222,391)
Provision for bad debts	(13,526,622)	(15,859,806)
Charity care	(1,915,413)	(1,952,649)
Net patient service revenue	$ 64,163,245	$ 73,742,079

Revenue from the Medicare and Medicaid programs accounted for approximately 20 percent and 8 percent, respectively, of the Medical Center's net patient service revenue during 2022, and 23 percent and 6 percent, respectively, of the Medical Center'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 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, 2022, the carrying amount of the Medical Center's bank deposits, including certificates of deposit, was $43,162,270 and the bank balances were $44,492,441. Of the bank balances, $750,000 was covered by federal depository insurance, and $43,742,441 was covered by collateral held by a third-party bank, but not registered in the Medical Center's name.

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

Cash and cash equivalents	$ 7,380,333
Assets limited as to use	
Internally designated	33,744,851
By contributors and grantors for capital acquisitions	2,037,086
Total bank deposits	$ 43,162,270

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, 2022 and 2021, is as follows:

	2022	2021
Equity securities	$ 5,407,812	$ 6,414,350
Fixed income securities	145,216	157,688
	$ 5,553,028	$ 6,572,038

The Foundation's investment return is summarized as follows:

	2022	2021
Interest and dividends including capital gains	$ 208,502	$ 164,134
Realized gains and losses	(89,570)	340,930
Unrealized gains and losses	(759,324)	732,389
Investment fees and taxes	(59,629)	(54,100)
	$ (700,021)	$ 1,183,353

Note E - Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

	June 30, 2022			
	Level 1	Level 2	Level 3	Total
Stocks and exchange traded funds	$ 5,407,812	$ -	$ -	$ 5,407,812
Fixed income securities		145,216		145,216
	$ 5,407,812	$ 145,216	$ -	$ 5,553,028

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 1,160,585	$ -	$ -	$ 1,160,585
Stocks and exchange traded funds	5,253,765			5,253,765
Fixed income securities		157,688		157,688
	$ 6,414,350	$ 157,688	$ -	$ 6,572,038

Note F - Assets Limited as to Use

The composition of assets limited as to use as of December 31, 2022 and 2021, is as follows:

	2022	2021
Internally designated		
Cash	$ 26,244,851	$ 23,356,743
Certificates of deposit	7,500,000	7,500,000
Accrued interest receivable	4,036	2,702
	$ 33,748,887	$ 30,859,445
Under indenture agreements - held by trustee		
Cash	$ 15,000	$ 15,000
Government obligation money market funds	1,389,863	1,377,185
	$ 1,404,863	$ 1,392,185
By contributors and grantors for capital acquisitions		
Cash	$ 2,037,086	$ 1,904,538
Contributions receivable	315,000	
	$ 2,352,086	$ 1,904,538

Note G - Capital Assets

Capital asset additions, retirements, and balances for the Medical Center as of December 31, 2022 and 2021, are as follows:

	2022			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land improvements	$ 2,270,127	$ -	$ -	$ 2,270,127
Buildings and fixed equipment	27,816,783	278,317		28,095,100
Major movable equipment	21,907,935	377,833		22,285,768
Total capital assets being depreciated	51,994,845	656,150	-	52,650,995
Less accumulated depreciation and amortization				
Land improvements	979,283	108,298		1,087,581
Buildings and fixed equipment	14,178,897	1,367,046		15,545,943
Major movable equipment	13,620,078	2,089,573		15,709,651
Total accumulated depreciation and amorization	28,778,258	3,564,917	-	32,343,175
Total capital assets being depreciated, net	23,216,587	(2,908,767)	-	20,307,820
Land	104,046			104,046
Construction in progress	799,235	563,458		1,362,693
Total capital assets not being depreciated	903,281	563,458	-	1,466,739
Capital assets, net	$ 24,119,868	$ (2,345,309)	$ -	$ 21,774,559

	2021			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land improvements	$ 2,270,127	$ -	$ -	$ 2,270,127
Buildings and fixed equipment	27,479,905	336,878		27,816,783
Major movable equipment	17,448,987	4,458,948		21,907,935
Total capital assets being depreciated	47,199,019	4,795,826	-	51,994,845
Less accumulated depreciation and amortization				
Land improvements	870,868	108,415		979,283
Buildings and fixed equipment	12,929,608	1,249,289		14,178,897
Major movable equipment	11,617,009	2,003,069		13,620,078
Total accumulated depreciation and amorization	25,417,485	3,360,773	-	28,778,258
Total capital assets being depreciated, net	21,781,534	1,435,053	-	23,216,587
Land	104,046			104,046
Construction in progress	2,314,892	(1,515,657)		799,235
Total capital assets not being depreciated	2,418,938	(1,515,657)	-	903,281
Capital assets, net	$ 24,200,472	$ (80,604)	$ -	$ 24,119,868

Note G - Capital Assets - Continued

Construction in progress at December 31, 2022 and 2021, consisted mainly of costs incurred for roof repairs and various items of equipment and software upgrades.

Capital asset additions, retirements, and balances for the Foundation as of June 30, 2022 and 2021, are as follows:

	2022			
	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	111,657	3,820		115,477
Total capital assets being depreciated, net	60,979	(3,820)	-	57,159
Capital assets not being depreciated				
Land	374,526			374,526
Capital assets, net	$ 435,505	$ (3,820)	$ -	$ 431,685

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

Note H - Unearned COVID-19 Revenue

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

Note H - Unearned COVID-19 Revenue - Continued

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

The Medical Center had determined that the eligibility requirements for lost revenues and allowable expenditures have been met for $457,625 and $10,472,080 of HHS provider relief funds, SPARK, CRF, and FEMA for the years ended December 31, 2022 and 2021, respectively. These amounts have, therefore, been recognized as nonoperating revenues and grants used for capital purchases in the financial statements during the year ended December 31, 2022 and 2021. The terms and conditions of the programs are complex and are subject to interpretation and evolving guidance. As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term.

Note I - Bonds Payable and SBA PPP Loan Payable

Bonds payable as of December 31, 2022 and 2021, are summarized as follows:

	2022	2021
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	$ 8,965,000	$ 9,045,000
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	3,725,000	4,210,000
	12,690,000	13,255,000
Add net unamortized premium on bonds	402,952	449,712
Less current maturities and premium on bonds	13,092,952	565,000
	$ -	$ 13,139,712

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.

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

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, 2022, the Medical Center was not in compliance with the rate covenants requiring that the debt service coverage ratio be no less than 1.15.

The debt service requirements on bonds payable as of December 31, 2022, are as follows:

	Principal	Interest	Total
2023	$ 12,690,000	$ 386,000	$ 13,076,000

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

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

	SBA PPP loan payable	Bonds	Total long-term obligations
Outstanding at January 1, 2021	$ 4,729,400	$ 14,375,000	$ 19,104,400
Obligations Incurred		4,650,000	4,650,000
Loan forgiveness	(4,729,400)		(4,729,400)
Principal payments		(5,770,000)	(5,770,000)
Outstanding at January 1, 2022	-	13,255,000	13,255,000
Principal payments		(565,000)	(565,000)
Outstanding at December 31, 2022	$ -	$ 12,690,000	$ 12,690,000

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

Total interest costs are summarized as follows:

	2022	2021
Total interest incurred	$ 395,948	$ 439,706
Amortization of bond premium	(46,760)	(44,556)
Amortization of deferred outflows and inflows on advance refunding	61,654	64,532
Payment of bond issuance costs		84,965
Interest expense	$ 410,842	$ 544,647

Note J - Defined Benefit Pension Plan

Plan description

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

Benefits

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

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

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

Note J - Defined Benefit Pension Plan - Continued

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 2022 and 2021. The employer rates established by statute at December 31, 2022 and 2021, are 8.90 percent and 8.87 percent, respectively. The Medical Center employer contributions to KPERS for the years ended December 31, 2022 and 2021, were $2,344,084 and $2,192,845, respectively, equal to the statutory required contributions for each year.

Employer and nonemployer allocations

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

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

To facilitate the separate (sub) actuarial valuations, the System maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The Medical Center is included in the local group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The allocation percentages for the Medical Center's share of the collective pension amounts as of December 31, 2022 and 2021, 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, 2022 and 2021, respectively. The contributions used exclude contributions made for prior service, excess benefits, and irregular payments. As of December 31, 2022, the Medical Center's proportion was 1.252 percent, which was a decrease of .253 percent from its share at December 31, 2021.

Net pension liability

At December 31, 2022 and 2021, the Medical Center reported a liability of $24,889,639 and $18,062,893, respectively, for its proportionate share of the net pension liability.

Note J - Defined Benefit Pension Plan - Continued

Actuarial assumptions

The total pension liability was determined by actuarial valuations as of December 31, 2021 and 2020, which were then rolled forward to June 30, 2022 and 2021, using the following actuarial assumptions:

Actuarial assumptions	2021	2020
Price inflation	2.75%	2.75%
Salary increases, including wage increases	3.50% - 12.00%	3.25% - 12.00%
Long-term rate of return net of investment expense and including price inflation	7.00%	7.25%

For 2021 and 2020, 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.

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, 2022, are summarized in the following table:

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

Discount rate

The discount rates used to measure the total pension liability as of December 31, 2021 and 2020, were 7.00 percent and 7.25 percent, respectfully. The State, School, and Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The statutory cap for the year ended June 30, 2022, was 1.2 percent.

Note J - Defined Benefit Pension Plan - Continued

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, 2022, 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	$ 35,754,771	$ 24,889,639	$ 15,837,406

Pension expense

For the years ended December 31, 2022 and 2021, the Medical Center recognized pension expense of $3,502,456 and $3,131,510, respectively, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Deferred outflows of resources and deferred inflows of resources

A summary of the collective deferred outflows of resources and deferred inflows of resources at December 31, 2022 and 2021, 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.

	2022	2021
Deferred outflows of resources		
Differences between expected and actual experience	$ 941,429	$ 712,984
Change of assumptions	3,978,465	3,555,702
Net difference between projected and actual earnings on pension plan investments	2,106,907	
Changes in proportion and differences between Medical Center contributions and proportionate share of contributions	2,191,317	3,377,773
Employer contributions subsequent to the measurement date	1,119,319	1,011,259
Total deferred outflows of resources	$ 10,337,437	$ 8,657,718

Note J - Defined Benefit Pension Plan - Continued

	2022	2021
Deferred inflows of resources		
Differences between expected and actual experience	$ 44,614	$ 163,552
Changes of assumptions		6,414,084
Changes in proportion and differences between Medical Center contributions and proportionate share of contributions	2,762,714	
Total deferred inflows of resources	$ 2,807,328	$ 6,577,636

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2022, 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
2023	$ 1,119,319	$ 2,219,013	$ 3,338,332
2024		1,779,951	1,779,951
2025		748,288	748,288
2026		1,677,655	1,677,655
2027		(14,117)	(14,117)
	$ 1,119,319	$ 6,410,790	$ 7,530,109

Note K - Employee Health Insurance

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

	2022	2021
Estimated net health insurance claims payable at beginning of year	$ 318,588	$ 459,244
Provision for Medical Center's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	2,735,951	2,491,110
Employee contributions	1,164,404	1,212,835
Payments made for claims and related expenses	(3,967,196)	(3,844,601)
Estimated net health insurance claims payable at end of year	251,747	318,588
Trust assets available for payment of claims and related expenses	1,530,311	1,922,287
Net estimated prepaid expense for health insurance claims at end of year	$ (1,278,564)	$ (1,603,699)

Note L - Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2022 and 2021, is as follows:

	2022	2021
Medicare	19 %	15 %
Medicaid	18	11
Blue Cross	15	20
Other third-party payors	26	30
Self-pay	22	24
	100 %	100 %

Note M - Related Party Transactions

During December 31, 2022, the Medical Center received a $315,000 pledge from the Foundation for the acquisition of capital assets. This pledge is included in assets limited as to use by contributors and grantors for capital acquisitions for the Medical Center and accrued liabilities for the Foundation as the pledge was made prior to the Foundation's June 30, 2022 year-end and was paid subsequent to the Medical Center's December 31, 2022 year-end. During December 31, 2021, the Medical Center received $200,000 from the Foundation for the acquisition of capital assets.

Note N - Risks and Uncertainties

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

The CARES Act and subsequent legislation enacted by the federal government has provided funding during these uncertain times. See Note H and Note I pertaining to the COVID-19 grant funds and the SBA PPP loan.

Note O - Risk Management

For the years ended December 31, 2022 and 2021, 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 effective November 21, 2022, and $200,000 prior to November 21, 2022, per occurrence up to an annual aggregate of $1,500,000 effective November 21, 2022, and $600,000 prior to November 21, 2022, 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 effective November 21, 2022, and $800,000 prior to November 21, 2022, 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 effective November 21, 2022, and $2,400,000 prior to November 21, 2022. 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, 2023. The Medical Center intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

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

Note P - Subsequent Event

Subsequent to December 31, 2022, the Medical Center has committed to purchasing equipment and building improvements of approximately $2,170,000.

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014
Medical Center's proportion of the net pension liability	1.2520%	1.5053%	1.3223%	1.2845%	1.1710%	1.0805%	1.0368%	1.0293%	0.9772%
Medical Center's proportionate share of the net pension liability	$ 24,889,639	$ 18,062,893	$ 22,923,725	$ 17,949,317	$ 16,321,574	$ 15,651,026	$ 16,039,277	$ 13,315,032	$ 12,027,370
Medical Center's covered employee payroll	$ 26,338,022	$ 24,722,041	$ 29,892,184	$ 24,212,126	$ 22,146,496	$ 19,835,721	$ 18,126,275	$ 17,693,998	$ 16,526,686
Medical Center's proportionate share of the net pension liability as a percentage of its covered employee payroll	94.50%	73.06%	76.69%	74.13%	73.70%	78.90%	88.49%	75.25%	72.78%
Plan fiduciary net position as a percentage of the total pension liability	70.66%	81.14%	70.77%	75.02%	74.22%	72.15%	68.55%	71.98%	72.56%

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).

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

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	$ 2,344,084	$ 2,192,845	$ 2,573,717	$ 2,152,458	$ 1,858,091	$ 1,678,102	$ 1,663,992	$ 1,677,391	$ 1,460,959	$ 1,239,538
Contributions in relation to the contractually required contribution	(2,344,084)	(2,192,845)	(2,573,717)	(2,152,458)	(1,858,091)	(1,678,102)	(1,663,992)	(1,677,391)	(1,460,959)	(1,239,538)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Medical Center's covered employee payroll	$ 26,338,022	$ 24,722,041	$ 29,892,184	$ 24,212,126	$ 22,146,496	$ 19,835,721	$ 18,126,275	$ 17,693,998	$ 16,526,686	$ 15,611,310
Contributions as a percentage of covered employee payroll	8.90%	8.87%	8.61%	8.89%	8.39%	8.46%	9.18%	9.48%	8.84%	7.94%

Notes to Schedule: 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, 2022

	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	$ 38,492,441	$ 500,000	$ 37,992,441	$ 40,981,616	$ 2,989,175
Community Bank	6,000,000	250,000	5,750,000	6,003,416	253,416

Southwest Medical Center
Schedule of Revenues and Expenses with Budget Comparison
Year ended December 31, 2022

	Actual	Budget	Over (under)
Net patient service revenue	$ 64,163,245	$ 81,307,108	$ (17,143,863)
Other	370,364	340,006	30,358
Total operating revenues	64,533,609	81,647,114	(17,113,505)
Total operating expenses	76,903,570	79,773,594	(2,870,024)
Operating income	(12,369,961)	1,873,520	(14,243,481)
Nonoperating revenues (expenses)	297,670	(361,994)	659,664
Excess of revenues over (under) expenses before capital grants and contributions	$ (12,072,291)	$ 1,511,526	$ (13,583,817)

Southwest Medical Center
Summary of Insurance Coverage
December 31, 2022

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, 2022 to November 21, 2023
Kansas Health Care Provider Insurance Availability Act	Excess hospital professional liability	$500,000/$1,500,000	November 21, 2022 to November 21, 2023
KaMMCO Insurance Company	Umbrella liability	$2,000,000/$2,000,000	November 21, 2022 to November 21, 2023
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, 2022 to January 1, 2023
KaMMCO Insurance Company	Fire legal liability	$50,000/$50,000	November 21, 2022 to November 21, 2023
Lloyd's of London	Cyber liability	$1,000,000/$1,000,000	November 21, 2022 to November 21, 2023
Great American Alliances Insurance Company	Underground Storage Tank	$500,000/$1,000,000	February 16, 2022 to February 16, 2023
Chubb Insurance	Property	Real - $55,971,102 Personal - $22,357,480 Business interruption - $46,631,868	January 1, 2022 to January 1, 2023
Cincinnati Financial	Auto liability and physical damage	$1,000,000/$1,000,000	January 1, 2022 to January 1, 2023

Southwest Medical Center
Summary of Insurance Coverage - Continued
December 31, 2022

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, 2022 to January 1, 2023
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, 2022 to January 1, 2023