

**Independent Auditor's Report and Financial Statements**  
**Southwest Medical Center**  
**December 31, 2019 and 2018**

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**Southwest Medical Center  
Management's Discussion and Analysis  
Years ended December 31, 2019 and 2018**

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, 2019 and 2018. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Medical Center's net position, or equity, increased \$7,161,490 or 17.9 percent during 2019 and increased \$5,240,820 or 15.1 percent during 2018.

The Medical Center reported a \$1,586,739 or 30.2 percent increase in operating income for 2019 and a \$397,101 or 7.0 percent decrease in operating income for 2018.

The net position of Southwest Medical Center Foundation (the Foundation), a component unit of the Medical Center, increased \$139,385 or 2 percent during 2019 and increased \$150,277 or 2.2 percent during 2018.

Using these financial statements

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

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

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

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

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

**Southwest Medical Center**  
**Management's Discussion and Analysis - Continued**  
**Years ended December 31, 2019 and 2018**

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 are summarized as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets			
Current assets	\$ 26,515,216	\$ 19,998,890	\$ 20,816,162
Assets limited as to use	30,397,884	28,868,797	21,423,538
Capital assets, net	<u>23,962,740</u>	<u>23,929,006</u>	<u>25,338,227</u>
Total assets	<u>80,875,840</u>	<u>72,796,693</u>	<u>67,577,927</u>
Deferred outflows of resources on advance refunding	<u>892,234</u>	<u>965,773</u>	<u>1,039,869</u>
Liabilities			
Current liabilities	(5,819,013)	(5,399,463)	(5,052,716)
Long-term obligations	<u>(14,834,087)</u>	<u>(15,366,982)</u>	<u>(15,890,111)</u>
Total liabilities excluding net pension liability	<u>(20,653,100)</u>	<u>(20,766,445)</u>	<u>(20,942,827)</u>
Net pension liability net of pension related deferred outflows and deferred inflows of resources	<u>(14,054,334)</u>	<u>(13,096,871)</u>	<u>(13,016,639)</u>
Net position	<u>\$ 47,060,640</u>	<u>\$ 39,899,150</u>	<u>\$ 34,658,330</u>

Cash and cash equivalents in the current asset category increased by \$3,354,545 during 2019 and decreased by \$1,564,285 during 2018.

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 \$1,077,822 during 2019 and by \$7,201,947 during 2018. Net transfers were made from operating cash to this category of assets that totaled \$3,600,000 in 2019 and \$8,879,668 in 2018.

In aggregate, the Medical Center's unrestricted cash and invested cash total was \$36,184,194 and \$31,751,827 as of December 31, 2019 and 2018, respectively. These represent 206 days and 209 days, respectively, of cash expenses during each of the years then ended. These figures exceed the median values for other hospitals similar to the Medical Center.

The Medical Center's net patient accounts receivable were 51 percent of current assets as of December 31, 2019, 53 percent as of December 31, 2018, and 47 percent as of December 31, 2017. In relation to net patient service revenue, net patient accounts receivable increased 9.7 percent during 2019, decreased 4.6 percent during 2018, and increased 6.6 percent during 2017. The average number of days of net patient revenue represented by them was 68 days, 62 days, and 65 days as of December 31, 2019, 2018, and 2017, respectively.

**Southwest Medical Center  
Management's Discussion and Analysis - Continued  
Years ended December 31, 2019 and 2018**

No new long-term obligations were incurred during 2019 or 2018.

At the end of 2019, the Medical Center had \$23,962,740 invested in capital assets, net of accumulated depreciation. The total value of new capital assets placed in service totaled \$2,130,700, \$1,697,837, and \$1,127,414, during 2019, 2018, and 2017, respectively.

The Medical Center's net position increased \$7,161,490 or 17.9 percent during 2019, increased \$5,240,820 or 15.1 percent during 2018, and increased \$5,482,181 or 18.8 percent during 2017. The percentage of total assets financed with its net position, or equity, was 58.2 percent, 54.8 percent, and 51.3 percent as of December 31, 2019, 2018, and 2017, respectively.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Assets</b>			
Current assets	\$ 6,501,266	\$ 6,334,695	\$ 6,229,184
Capital assets, net	448,483	454,972	461,461
Other investments	<u>72,310</u>	<u>72,309</u>	<u>73,898</u>
Total assets	7,022,059	6,861,976	6,764,543
<b>Liabilities</b>			
Current liabilities	<u>20,698</u>	<u>                    </u>	<u>52,844</u>
Net position	<u>\$ 7,001,361</u>	<u>\$ 6,861,976</u>	<u>\$ 6,711,699</u>

The Foundation's current assets consist primarily of investments in marketable securities. The Foundation's net position increased \$139,385 or 2 percent during fiscal year 2019 and increased \$150,277 or 2.2 percent during fiscal year 2018. These changes in net position 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 are summarized as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues	\$ 73,159,327	\$ 62,851,622	\$ 55,062,874
Operating expenses	(65,367,856)	(57,524,120)	(49,263,994)
Actuarial adjustment to pension expense	<u>(957,463)</u>	<u>(80,233)</u>	<u>(154,510)</u>
Operating income	6,834,008	5,247,269	5,644,370
Interest expense	(598,722)	(609,148)	(628,299)
Nonoperating revenues	422,601	332,649	236,295
Gain on disposal of capital assets		750	500
Capital grants and contributions	<u>503,603</u>	<u>269,300</u>	<u>229,315</u>
Change in net position	<u>\$ 7,161,490</u>	<u>\$ 5,240,820</u>	<u>\$ 5,482,181</u>

**Southwest Medical Center**  
**Management's Discussion and Analysis - Continued**  
**Years ended December 31, 2019 and 2018**

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 increased \$1,586,739 during 2019 and decreased \$397,101 during 2018.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Inpatient services	\$ 88,172,199	\$ 75,974,865	\$ 70,849,279
Outpatient services	104,842,321	90,373,730	74,466,015
Physician services	<u>19,514,050</u>	<u>16,487,981</u>	<u>10,999,787</u>
Gross patient service revenue	212,528,570	182,836,576	156,315,081
Contractual adjustments	(124,951,849)	(108,183,552)	(92,077,915)
Provision for bad debts	(12,751,714)	(10,667,272)	(7,723,800)
Charity care	<u>(2,300,527)</u>	<u>(1,808,945)</u>	<u>(2,000,372)</u>
Net patient service revenue	<u>\$ 72,524,480</u>	<u>\$ 62,176,807</u>	<u>\$ 54,512,994</u>

No significant rate changes were implemented during 2017. The Medical Center raised all rates for hospital services by 4.5 percent in January 2018. The Medical Center made targeted rate increases in January 2019. The actual changes in gross patient service revenue were different than expected because of changes in patient utilization.

Total inpatient days increased by 16 percent and total outpatient registrations increased by 9.1 percent during 2019. Total inpatient days increased by 1.8 percent and total outpatient registrations increased by 5.6 percent during 2018.

During 2018, a certified registered nurse anesthetist began practice in February, an anesthesiologist began practice in September, an orthopedic surgeon began practice in April, a nurse practitioner began practice in May, and two physician assistant hospitalists began practice in September.

During 2019, three physician assistant hospitalists began practice in September, a registered obstetrician gynecologist and a nurse practitioner certified midwife began practicing in January, a family practice physician began practice in October, and a nurse practitioner began practice in December.

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

The Medical Center provides care free of charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charity care increased 27.2 percent during 2019. Charity care decreased 10 percent during 2018. There is a continuing trend in the health care industry to identify and report the value of charity care provided to patients.

Together, the provision for bad debts and charity care represented 7.1 percent, 6.8 percent, and 6.2 percent of gross patient service revenue during 2019, 2018, and 2017, respectively.

**Southwest Medical Center  
Management's Discussion and Analysis - Continued  
Years ended December 31, 2019 and 2018**

Employee salaries and wages increased by \$2,991,348 or 11.6 percent during 2019 and increased by \$3,377,715 or 15 percent during 2018. These changes are functions of changes in numbers of employees and in pay rates. Average pay rates increased by 5.0 percent and 8.5 percent during 2019 and 2018, respectively. Total full-time equivalent employees increased by 26 or 6.2 percent during 2019 after increasing by 24 or 6.1 percent during 2018. The increase in numbers of employees during 2019 and 2018 is primarily due to increases in patient volume and the Medical Center expanding its hospitalist and clinic services.

The cost of employee benefits excluding the pension adjustment was 25.9 percent and 26.8 percent of salaries and wages during 2019 and 2018, respectively. Employee benefit expenses excluding the pension adjustment increased \$555,024 during 2019 and increased \$946,536 during 2018. The primary causes of the changes in both years are variations in costs for a public retirement plan and employee health insurance.

Supplies and other expenses increased by \$4,216,761 or 19.2 percent during 2019 and increased by \$4,286,218 or 24.2 percent during 2018. The 2018 and 2019 increases occurred primarily because the Medical Center experienced an increase in patient volume. These changes are generally consistent with changes in patient volumes experienced by the Medical Center combined with the general rate of health care inflation.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contributions	\$ 233,689	\$ 100	\$ 100
Investment income	431,615	446,551	658,706
Other income	83,139	94,376	70,928
Expenses	<u>(609,058)</u>	<u>(390,750)</u>	<u>(318,956)</u>
Change in net position	<u>\$ 139,385</u>	<u>\$ 150,277</u>	<u>\$ 410,778</u>

Unrealized gains and losses are included in the investment income category on the Foundation's financial statements. The Foundation's investment income included net realized and unrealized gains of \$266,929, \$291,645, and \$505,324 for the years ended June 30, 2019, 2018 and 2017. These results followed changes in the broad market indices during those years.

## Independent Auditor's Report

Board of Trustees  
Southwest Medical Center

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of Southwest Medical Center (the Medical Center) as of and for the years ended December 31, 2019 and 2018, 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.

### Management's Responsibility 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; this includes 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of Southwest Medical Center as of December 31, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that 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, 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. 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 financial statements, and other knowledge we obtained during our audit of the 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.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplemental information presented on pages 33 through 36 is 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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  
April 1, 2020

## **Financial Statements**

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

**Assets and Deferred Outflows of Resources**

	2019		2018	
	Medical Center	Component unit	Medical Center	Component unit
<b>Current assets</b>				
Cash and cash equivalents	\$ 8,354,075	\$ 680,811	\$ 4,999,530	\$ 648,858
Marketable securities		5,818,791		5,685,837
Assets limited as to use	448,485		438,080	
Patient accounts receivable, net of allowance for uncollectible accounts of \$4,624,302 in 2019 and \$4,806,445 in 2018	13,540,148		10,501,648	
Other receivables	96,192		126,973	
Estimated third-party payor settlements	19,417		49,044	
Inventories	1,487,489		1,539,113	
Prepaid expenses	2,569,410	1,664	2,344,502	
<b>Total current assets</b>	<b>26,515,216</b>	<b>6,501,266</b>	<b>19,998,890</b>	<b>6,334,695</b>
<b>Assets limited as to use</b>				
Internally designated	27,830,119		26,752,297	
Under indenture agreements - held by trustee	1,679,994		1,649,918	
By contributors and grantors for capital acquisitions	1,336,256		904,662	
	30,846,369	-	29,306,877	-
Less amounts required to meet current obligations	448,485		438,080	
	30,397,884	-	28,868,797	-
<b>Capital assets - net</b>	<b>23,962,740</b>	<b>448,483</b>	<b>23,929,006</b>	<b>454,972</b>
<b>Other assets</b>				
Other investments		72,310		72,309
<b>Total assets</b>	<b>80,875,840</b>	<b>7,022,059</b>	<b>72,796,693</b>	<b>6,861,976</b>
<b>Deferred outflows of resources</b>				
Deferred outflows of resources - pension	4,383,402		3,765,782	
Deferred outflows on advance refunding	892,234		965,773	
<b>Total deferred outflows of resources</b>	<b>5,275,636</b>	<b>-</b>	<b>4,731,555</b>	<b>-</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 86,151,476</b>	<b>\$ 7,022,059</b>	<b>\$ 77,528,248</b>	<b>\$ 6,861,976</b>

The accompanying notes are an integral part of these statements.

### Liabilities, Deferred Inflows of Resources, and Net Position

	2019		2018	
	Medical Center	Component unit	Medical Center	Component unit
<b>Current liabilities</b>				
Current maturities of long-term obligations	\$ 495,000	\$ -	\$ 484,739	\$ -
Accounts payable	2,090,210		1,625,812	
Estimated third-party payor settlements	51,936		194,212	
Other accrued liabilities	60,201	20,698	89,721	
Accrued salaries and benefits	2,084,384		2,045,976	
Accrued compensated absences	802,492		723,635	
Accrued interest payable	234,790		235,368	
<b>Total current liabilities</b>	5,819,013	20,698	5,399,463	-
<b>Long-term obligations, less current maturities</b>	14,834,087		15,366,982	
<b>Net pension liability</b>	17,949,317		16,321,574	
<b>Total liabilities</b>	38,602,417	20,698	37,088,019	-
<b>Deferred inflows of resources - pension</b>	488,419	-	541,079	-
<b>Net position</b>				
Invested in capital assets - net of related debt	9,525,887	448,483	9,043,058	454,972
Restricted				
For debt service	1,593,106		1,564,524	
Expendable for capital acquisitions	1,423,144		990,056	
For specific operating activities		552,873		728,276
Nonexpendable permanent endowments		666,455		664,856
Unrestricted	34,518,503	5,333,550	28,301,512	5,013,872
<b>Total net position</b>	47,060,640	7,001,361	39,899,150	6,861,976
<b>Total liabilities, deferred inflows of resources, and net position</b>	\$ 86,151,476	\$ 7,022,059	\$ 77,528,248	\$ 6,861,976

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

	2019		2018	
	<u>Medical Center</u>	<u>Component unit</u>	<u>Medical Center</u>	<u>Component unit</u>
<b>Operating revenues</b>				
Net patient service revenue	\$ 72,524,480	\$ -	\$ 62,176,807	\$ -
Other	<u>634,847</u>	<u>-</u>	<u>674,815</u>	<u>-</u>
<b>Total operating revenues</b>	<u>73,159,327</u>	<u>-</u>	<u>62,851,622</u>	<u>-</u>
<b>Operating expenses</b>				
Salaries and wages	28,818,194		25,826,846	
Employee benefits	7,468,306		6,913,282	
Actuarial adjustment to pension expense	957,463		80,233	
Supplies and other	26,182,214	602,569	21,965,453	384,261
Depreciation and amortization	<u>2,899,142</u>	<u>6,489</u>	<u>2,818,539</u>	<u>6,489</u>
<b>Total operating expenses</b>	<u>66,325,319</u>	<u>609,058</u>	<u>57,604,353</u>	<u>390,750</u>
<b>Operating income (loss)</b>	<u>6,834,008</u>	<u>(609,058)</u>	<u>5,247,269</u>	<u>(390,750)</u>
<b>Nonoperating revenues (expenses)</b>				
Investment income	405,926	431,615	321,927	446,551
Interest expense	(598,722)		(609,148)	
Noncapital grants and contributions	16,675	233,689	10,722	100
Gain on disposal of capital assets			750	
Other	<u>-</u>	<u>83,139</u>	<u>-</u>	<u>94,376</u>
<b>Total nonoperating revenues (expenses)</b>	<u>(176,121)</u>	<u>748,443</u>	<u>(275,749)</u>	<u>541,027</u>
<b>Excess of revenues over expenses before capital grants and contributions</b>	6,657,887	139,385	4,971,520	150,277
Capital grants and contributions	<u>503,603</u>	<u>-</u>	<u>269,300</u>	<u>-</u>
<b>Change in net position</b>	7,161,490	139,385	5,240,820	150,277
<b>Net position at beginning of year</b>	<u>39,899,150</u>	<u>6,861,976</u>	<u>34,658,330</u>	<u>6,711,699</u>
<b>Net position at end of year</b>	<u>\$ 47,060,640</u>	<u>\$ 7,001,361</u>	<u>\$ 39,899,150</u>	<u>\$ 6,861,976</u>

The accompanying notes are an integral part of these statements.

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

	2019		2018	
	Medical Center	Component unit	Medical Center	Component unit
<b>Cash flows from operating activities</b>				
Receipts from and on behalf of patients	\$ 69,373,331	\$ -	\$ 61,196,900	\$ -
Payments to or on behalf of employees	(36,202,218)		(32,349,820)	
Payments for supplies and services	(25,889,614)	(583,535)	(21,324,329)	(384,261)
Other receipts and payments	675,628		654,860	
<b>Net cash provided (used) by operating activities</b>	<u>7,957,127</u>	<u>(583,535)</u>	<u>8,177,611</u>	<u>(384,261)</u>
<b>Cash flows from noncapital financing activities</b>				
Noncapital grants and contributions	16,675	100	10,722	100
<b>Cash flows from capital and related financing activities</b>				
Acquisition of capital assets	(2,940,899)		(1,797,726)	(52,844)
Principal payments on long-term obligations	(484,739)		(520,004)	
Interest paid	(563,656)		(580,429)	
Capital grants and contributions	503,603		269,300	
Proceeds from sale of equipment			750	
<b>Net cash used by capital and related financing activities</b>	<u>(3,485,691)</u>	<u>-</u>	<u>(2,628,109)</u>	<u>(52,844)</u>
<b>Cash flows from investing activities</b>				
Change in assets limited as to use	(30,076)		(17,308)	
Change in investments		343,624		155,740
Other income received		83,139		95,964
Investment income received	405,735	188,625	324,966	152,186
<b>Net cash provided by investing activities</b>	<u>375,659</u>	<u>615,388</u>	<u>307,658</u>	<u>403,890</u>
<b>Net change in cash and cash equivalents</b>	4,863,770	31,953	5,867,882	(33,115)
<b>Cash and cash equivalents at beginning of year</b>	<u>25,154,110</u>	<u>648,858</u>	<u>19,286,228</u>	<u>681,973</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 30,017,880</u>	<u>\$ 680,811</u>	<u>\$ 25,154,110</u>	<u>\$ 648,858</u>
<b>Supplemental information</b>				
Noncash investing and financing activities				
Donated securities	\$ -	\$ 233,589	\$ -	\$ -

The accompanying notes are an integral part of these statements.

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

	2019		2018	
	Medical Center	Component unit	Medical Center	Component unit
<b>Reconciliation of cash and cash equivalents</b>				
Cash and cash equivalents	\$ 8,354,075	\$ 680,811	\$ 4,999,530	\$ 648,858
Cash included in assets limited as to use Internally designated	20,327,549		19,249,918	
By contributors and grantors for capital acquisitions	1,336,256		904,662	
<b>Total cash and cash equivalents</b>	<b>\$ 30,017,880</b>	<b>\$ 680,811</b>	<b>\$ 25,154,110</b>	<b>\$ 648,858</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>				
Operating income (loss)	\$ 6,834,008	\$ (609,058)	\$ 5,247,269	\$ (390,750)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation and amortization	2,899,142	6,489	2,818,539	6,489
Provision for bad debts	12,751,714		10,667,272	
Physician advance made	(10,000)			
Changes in				
Accounts receivable	(15,790,214)		(11,397,728)	
Other receivables	40,781		(19,955)	
Inventories and prepaid expenses	(173,284)	(1,664)	53,619	
Accounts payable and accrued expenses	560,166	20,698	977,813	
Estimated third-party payor settlements	(112,649)		(249,450)	
Net pension liability, deferred inflows, and deferred outflows related to defined benefit pension plan	957,463		80,232	
<b>Net cash provided (used) by operating activities</b>	<b>\$ 7,957,127</b>	<b>\$ (583,535)</b>	<b>\$ 8,177,611</b>	<b>\$ (384,261)</b>

The accompanying notes are an integral part of these statements.

**Southwest Medical Center**  
**Notes to Financial Statements**  
**December 31, 2019 and 2018**

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

Southwest Medical Center (the 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.

The component unit discussed in Note A1 is included in the Medical Center's reporting entity because of the nature and significance of its relationship with the Medical Center.

1. Component unit

The financial statements include the financial data of the discretely presented component unit described below. The component unit is reported separately to emphasize that it is legally separate from the Medical Center.

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 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.

Financial data of the Foundation are presented as of June 30, 2019 and 2018, and for the years then ended.

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. Basis of accounting

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

4. 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.

5. 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.

6. Inventories

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



**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

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

7. 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.

8. Assets limited as to use

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

9. Capital assets

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

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

10. 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 capitalized as a component of the cost of acquiring those assets. 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.

11. 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.

12. 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.

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

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

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. 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.

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

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

19. Income taxes

The Medical Center is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code. Management is not aware of any uncertainties in income tax positions. Tax years ending on and before December 31, 2015, are not subject to examination by taxing authorities.

The Foundation is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. Management is not aware of any uncertainties in income tax positions. Tax years ending on and before June 30, 2015, are not subject to examination by taxing authorities.

20. Subsequent events

The Medical Center has evaluated subsequent events through April 1, 2020, which is the date the financial statements were available to be issued.

**Note B - Reimbursement Programs**

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

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

Prospectively determined rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The Medical Center is paid for cost reimbursable and other items at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare administrative contractor. The Medical Center's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medical Center's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2016.

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 rates.

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Note B - Reimbursement Programs - Continued**

A summary of gross and net patient service revenue follows:

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$ 212,528,570	\$ 182,836,576
Contractual adjustments	(124,951,849)	(108,183,552)
Provision for bad debts	(12,751,714)	(10,667,272)
Charity care	<u>(2,300,527)</u>	<u>(1,808,945)</u>
Net patient service revenue	<u>\$ 72,524,480</u>	<u>\$ 62,176,807</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 23 percent and 5 percent, respectively, of the Medical Center's net patient service revenue during 2019, and 23 percent and 6 percent, respectively, of the Medical Center's net patient service revenue during 2018. 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**

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, 2019, the carrying amount of the Medical Center's bank deposits, including certificates of deposit, was \$37,513,357 and the bank balances were \$38,036,247. Of the bank balances, \$750,000 was covered by federal depository insurance, and \$37,286,247 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	\$ 8,349,551
Assets limited as to use	
Internally designated	27,827,550
By contributors and grantors for capital acquisitions	<u>1,336,256</u>
Total bank deposits	<u>\$ 37,513,357</u>

**Note D - Marketable Securities**

The Foundation's marketable securities are stated at fair value. The composition of its marketable securities is as follows:

	<u>2019</u>	<u>2018</u>
Equity securities	\$ 5,669,055	\$ 5,547,224
Fixed income securities	<u>149,736</u>	<u>138,613</u>
	<u>\$ 5,818,791</u>	<u>\$ 5,685,837</u>

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**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:

	December 31, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 1,051,978	\$ -	\$ -	\$ 1,051,978
Stocks and exchange traded funds	4,617,077			4,617,077
Fixed income securities		<u>149,736</u>		<u>149,736</u>
	<u>\$ 5,669,055</u>	<u>\$ 149,736</u>	<u>\$ -</u>	<u>\$ 5,818,791</u>

  

	December 31, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 2,538,630	\$ -	\$ -	\$ 2,538,630
Stocks and exchange traded funds	3,008,594			3,008,594
Fixed income securities		<u>138,613</u>		<u>138,613</u>
	<u>\$ 5,547,224</u>	<u>\$ 138,613</u>	<u>\$ -</u>	<u>\$ 5,685,837</u>

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Note F - Assets Limited as to Use**

The composition of assets limited as to use is as follows:

	<u>2019</u>	<u>2018</u>
Internally designated		
Cash	\$ 20,327,549	\$ 19,249,918
Certificates of deposit	7,500,000	7,500,000
Accrued interest receivable	<u>2,570</u>	<u>2,379</u>
	<u>\$ 27,830,119</u>	<u>\$ 26,752,297</u>
Under indenture agreements - held by trustee		
Cash	\$ 15,000	\$ 15,000
Government obligation money market funds	<u>1,664,994</u>	<u>1,634,918</u>
	<u>\$ 1,679,994</u>	<u>\$ 1,649,918</u>
By contributors and grantors for capital acquisitions		
Cash	<u>\$ 1,336,256</u>	<u>\$ 904,662</u>

**Note G - Capital Assets**

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

	<u>2019</u>			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 104,046	\$ -	\$ -	\$ 104,046
Land improvements	2,963,752	80,211		3,043,963
Buildings and fixed equipment	45,750,672	324,689		46,075,361
Major movable equipment	<u>36,408,374</u>	<u>1,725,800</u>		<u>38,134,174</u>
Totals at historical cost	<u>85,226,844</u>	<u>2,130,700</u>	-	<u>87,357,544</u>
Less accumulated depreciation and amortization				
Land improvements	1,501,604	98,896		1,600,500
Buildings and fixed equipment	29,039,656	1,376,738		30,416,394
Major movable equipment	<u>31,000,076</u>	<u>1,423,508</u>		<u>32,423,584</u>
	<u>61,541,336</u>	<u>2,899,142</u>	-	<u>64,440,478</u>
	23,685,508	(768,442)	-	22,917,066
Construction in progress	<u>243,498</u>	<u>802,176</u>		<u>1,045,674</u>
Capital assets, net	<u>\$ 23,929,006</u>	<u>\$ 33,734</u>	<u>\$ -</u>	<u>\$ 23,962,740</u>

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Note G - Capital Assets - Continued**

	2018			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land	\$ 104,046	\$ -	\$ -	\$ 104,046
Land improvements	2,963,752			2,963,752
Buildings and fixed equipment	45,783,189	(32,517)		45,750,672
Major movable equipment	34,678,770	1,730,354	750	36,408,374
Totals at historical cost	<u>83,529,757</u>	<u>1,697,837</u>	<u>750</u>	<u>85,226,844</u>
Less accumulated depreciation and amortization				
Land improvements	1,402,482	99,122		1,501,604
Buildings and fixed equipment	27,656,164	1,383,492		29,039,656
Major movable equipment	29,664,901	1,335,925	750	31,000,076
	<u>58,723,547</u>	<u>2,818,539</u>	<u>750</u>	<u>61,541,336</u>
	24,806,210	(1,120,702)	-	23,685,508
Construction in progress	<u>532,017</u>	<u>(288,519)</u>		<u>243,498</u>
Capital assets, net	<u>\$ 25,338,227</u>	<u>\$ (1,409,221)</u>	<u>\$ -</u>	<u>\$ 23,929,006</u>

Construction in progress at December 31, 2019 and 2018, consisted mainly of costs incurred for various items of equipment and software upgrades. At December 31, 2019, the Medical Center's outstanding commitments for capital assets were approximately \$1,049,000.

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

	2019			
	Beginning balance	Transfers and additions	Retirements	Ending balance
Land	\$ 374,526	\$ -	\$ -	\$ 374,526
Land improvements	172,636			172,636
Major movable equipment	2,079			2,079
Totals at historical cost	549,241	-	-	549,241
Less accumulated depreciation and amortization	94,269	6,489		100,758
Capital assets, net	<u>\$ 454,972</u>	<u>\$ (6,489)</u>	<u>\$ -</u>	<u>\$ 448,483</u>

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Note G - Capital Assets - Continued**

	2018			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 374,526	\$ -	\$ -	\$ 374,526
Land improvements	172,636			172,636
Major movable equipment	<u>2,079</u>			<u>2,079</u>
Totals at historical cost	549,241	-	-	549,241
Less accumulated depreciation and amortization	<u>87,780</u>	<u>6,489</u>		<u>94,269</u>
Capital assets, net	<u>\$ 461,461</u>	<u>\$ (6,489)</u>	<u>\$ -</u>	<u>\$ 454,972</u>

**Note H - Long-Term Obligations**

Long-term obligations are summarized as follows:

	<u>2019</u>	<u>2018</u>
2.0% to 5.0% General Obligation Hospital Refunding and Improvement Bonds, Series 2010-A; issued on May 27, 2010, in the original amount of \$17,670,000, due serially through August 1, 2040	\$ 5,670,000	\$ 6,080,000
2.0% to 4.0% General Obligation Hospital Refunding Bonds, Series 2016; issued on March 30, 2016, in the original amount of \$9,480,000, due serially through August 1, 2038	9,200,000	9,270,000
Capital lease obligation, paid off in 2019		<u>4,739</u>
	14,870,000	15,354,739
Add net unamortized premium on bonds	459,087	496,982
Less current maturities	<u>495,000</u>	<u>484,739</u>
	<u>\$ 14,834,087</u>	<u>\$ 15,366,982</u>

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



**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Note H - Long-Term Obligations - Continued**

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 will mature and pay interest in amounts and at times that will provide 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.

The refunding transaction decreased the total amount of future debt service requirements by \$920,259. This resulted in an economic gain of \$743,879. 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.

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.

Scheduled annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 495,000	\$ 547,875	\$ 1,042,875
2021	515,000	530,925	1,045,925
2022	530,000	513,735	1,043,735
2023	550,000	495,585	1,045,585
2024	570,000	476,295	1,046,295
2025 - 2029	3,150,000	2,077,000	5,227,000
2030 - 2034	3,670,000	1,557,050	5,227,050
2035 - 2039	4,360,000	866,575	5,226,575
2040 - 2043	1,030,000	51,500	1,081,500
	<u>\$ 14,870,000</u>	<u>\$ 7,116,540</u>	<u>\$ 21,986,540</u>

**Southwest Medical Center  
Notes to Financial Statements - Continued  
December 31, 2019 and 2018**

**Note H - Long-Term Obligations - Continued**

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

	<u>Capital lease obligation</u>	<u>Bonds</u>	<u>Total long-term obligations</u>
Outstanding at January 1, 2018	\$ 59,743	\$ 15,815,000	\$ 15,874,743
Principal payments	<u>(55,004)</u>	<u>(465,000)</u>	<u>(520,004)</u>
Outstanding at January 1, 2019	4,739	15,350,000	15,354,739
Principal payments	<u>(4,739)</u>	<u>(480,000)</u>	<u>(484,739)</u>
Outstanding at December 31, 2019	<u>\$ -</u>	<u>\$ 14,870,000</u>	<u>\$ 14,870,000</u>

Total interest costs are summarized as follows:

	<u>2019</u>	<u>2018</u>
Total interest incurred	\$ 563,077	\$ 573,443
Amortization of bond premium	(37,894)	(38,391)
Amortization of deferred outflows on advance refunding	<u>73,539</u>	<u>74,096</u>
Interest expense	<u>\$ 598,722</u>	<u>\$ 609,148</u>

**Note I - Defined Benefit Pension Plan**

*Plan description*

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

*Benefits*

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

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Note I - Defined Benefit Pension Plan - Continued**

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

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

*Contributions*

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

KPERS has three benefit structures and funding depends on whether the employee is a Tier 1, Tier 2, or Tier 3 member. Tier 1 members were hired before July 1, 2009, Tier 2 members were first employed on or after July 1, 2009, and Tier 3 members were first employed on or after January 1, 2015. Kansas law established the KPERS member-employee contribution rate at 6 percent of covered salary for all members for 2019 and 2018, respectively. The employer rates established by statute at December 31, 2019 and 2018, are 8.89 percent and 8.39 percent, respectively. The Medical Center employer contributions to KPERS for the years ended December 31, 2019 and 2018, were \$2,152,458 and \$1,858,091, 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, 2019 and 2018, are based on the ratio of each employer's

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Note I - Defined Benefit Pension Plan - Continued**

contributions to total employer and nonemployer contributions of the group for the years ended June 30, 2019 and 2018, respectively. The contributions used exclude contributions made for prior service, excess benefits, and irregular payments. As of December 31, 2019, the Medical Center's proportion was 1.285 percent, which was an increase of .114 from its share at December 31, 2018.

*Net pension liability*

At December 31, 2019 and 2018, the Medical Center reported a liability of \$17,949,317 and \$16,321,574, respectively, for its proportionate share of the net pension liability.

*Actuarial assumptions*

The total pension liability was determined by actuarial valuations as of December 31, 2018 and 2017, which were then rolled forward to June 30, 2019 and 2018, using the following actuarial assumptions:

<u>Actuarial assumptions</u>	<u>2018</u>	<u>2017</u>
Price inflation	2.75%	2.75%
Wage inflation	2.75%	2.75%
Salary increases, including wage increases	3.50% - 12.00%	3.50% - 12.00%
Long-term rate of return net of investment expense and including price inflation	7.75%	7.75%

For 2018 and 2017, mortality rates were based on the RP 2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016.

The actuarial assumptions used in the December 31, 2018 and 2017 valuations were based on the results of an actuarial experience study conducted for the three-year period ended December 31, 2015.

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, 2019, are summarized in the following table:

<u>Asset class</u>	<u>Long-term target allocation</u>	<u>Long-term expected real rate of return</u>
Global equity	47.00 %	6.85 %
Fixed income	13.00	1.25
Yield driven	8.00	6.55
Real return	11.00	1.71
Real estate	11.00	5.05
Alternatives	8.00	9.85
Short-term investments	<u>2.00</u>	(0.25)
Total	<u>100.00 %</u>	

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Note I - Defined Benefit Pension Plan - Continued**

*Discount rate*

The discount rate used to measure the total pension liability as of December 31, 2018 and 2017, was 7.75 percent. 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, 2019, was 1.2 percent. The projection of cash flows used to determine the discount rates assumed that contributions from plan members will be made within the same range as have been made during the past few years.

*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, 2019, calculated using the discount rate of 7.75 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 (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% decrease <u>(6.75%)</u>	Current discount rate <u>(7.75%)</u>	1% increase <u>(8.75%)</u>
Medical Center's share of net pension liability	\$ 26,807,681	\$ 17,949,317	\$ 10,539,457

*Pension expense*

For the years ended December 31, 2019 and 2018, the Medical Center recognized pension expense of \$3,103,244 and \$1,943,547, 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, 2019 and 2018, 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.

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Note I - Defined Benefit Pension Plan - Continued**

	<u>2019</u>	<u>2018</u>
Deferred outflows of resources		
Differences between expected and actual experience	\$ 39,290	\$ 58,928
Change of assumptions	548,596	706,794
Net difference between projected and actual earnings on pension plan investments	422,292	381,813
Changes in proportion and differences between Medical Center contributions and proportionate share of contributions	2,396,206	1,742,647
Employer contributions subsequent to the measurement date	<u>977,018</u>	<u>875,600</u>
<b>Total deferred outflows of resources</b>	<b><u>\$ 4,383,402</u></b>	<b><u>\$ 3,765,782</u></b>
Deferred inflows of resources		
Differences between expected and actual experience	\$ 452,039	\$ 462,480
Changes of assumptions	<u>36,380</u>	<u>78,599</u>
<b>Total deferred inflows of resources</b>	<b><u>\$ 488,419</u></b>	<b><u>\$ 541,079</u></b>

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2019, that will be recognized in pension expense in future years:

<u>Year ended</u> <u>December 31,</u>	Employer contributions subsequent to the measurement <u>date</u>	Recognition of net deferred outflows/(inflows) of resources <u>by year</u>	<u>Total</u>
2020	\$ 977,018	\$ 1,230,104	\$ 2,207,122
2021		501,139	501,139
2022		692,530	692,530
2023		468,127	468,127
2024		<u>26,065</u>	<u>26,065</u>
	<u>\$ 977,018</u>	<u>\$ 2,917,965</u>	<u>\$ 3,894,983</u>

**Note J - 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

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Note J - Employee Health Insurance - Continued**

participating employees are remitted to the Southwest Medical Center Employee Health Plan Trust. The Trust has retained an insurance company as its agent to process and settle claims. The Trust reimburses the agent weekly for the amount of claims paid by the agent net of any amounts covered by reinsurance. The following is a summary of the activity under this arrangement:

	<u>2019</u>	<u>2018</u>
Estimated net health insurance claims payable at beginning of year	\$ 297,369	\$ 396,767
Provision for Medical Center's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	2,508,539	2,576,897
Employee contributions	1,208,170	1,163,319
Payments made for claims and related expenses	<u>(3,653,885)</u>	<u>(3,839,614)</u>
Estimated net health insurance claims payable at end of year	360,193	297,369
Trust assets available for payment of claims and related expenses	<u>1,823,320</u>	<u>1,784,199</u>
Net estimated prepaid expense for health insurance claims at end of year	<u>\$ (1,463,127)</u>	<u>\$ (1,486,830)</u>

**Note K - 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, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	17 %	23 %
Medicaid	11	12
Blue Cross	20	16
Other third-party payors	22	21
Self-pay	<u>30</u>	<u>28</u>
	<u>100 %</u>	<u>100 %</u>

**Note L - Related Party Transactions**

During 2019 and 2018, the Medical Center received \$494,603 and \$260,000, respectively, from the Foundation for the purchase of property and equipment.

**Southwest Medical Center**  
**Notes to Financial Statements - Continued**  
**December 31, 2019 and 2018**

**Note M - Risk Management**

For the years ended December 31, 2019 and 2018, the Medical Center was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Medical Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Medical Center for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability coverage in excess of the underlying limits set forth above in the amount of \$2,000,000 per occurrence with an aggregate amount in any policy year of \$2,000,000. All coverage is on a claims-made basis. The above policies are currently in effect through November 21, 2020. 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 N - Subsequent Events**

Subsequent to year-end, the Medical Center has been negatively impacted by the effects of the worldwide coronavirus pandemic. The Medical Center is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact of the Medical Center's financial position is not known.



**Required Supplementary Information**

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Medical Center's proportion of the net pension liability	1.2845%	1.1710%	1.0805%	1.0368%	1.0293%	0.9772%
Medical Center's proportionate share of the net pension liability	\$ 17,949,317	\$ 16,321,574	\$ 15,651,026	\$ 16,039,277	\$ 13,315,032	\$ 12,027,370
Medical Center's covered employee payroll	\$ 24,212,126	\$ 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	74.13%	73.70%	78.90%	88.49%	75.25%	72.78%
Plan fiduciary net position as a percentage of the total pension liability	75.02%	74.22%	72.15%	68.55%	71.98%	72.56%

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually required contribution	\$ 2,152,458	\$ 1,858,091	\$ 1,678,102	\$ 1,663,992	\$ 1,677,391	\$ 1,460,959	\$ 1,239,538	\$ 1,118,958	\$ 1,054,114	\$ 975,565
Contributions in relation to the contractually required contribution	<u>(2,152,458)</u>	<u>(1,858,091)</u>	<u>(1,678,102)</u>	<u>(1,663,992)</u>	<u>(1,677,391)</u>	<u>(1,460,959)</u>	<u>(1,239,538)</u>	<u>(1,118,958)</u>	<u>(1,054,114)</u>	<u>(975,565)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered employee payroll	\$ 24,212,126	\$ 22,146,496	\$ 19,835,721	\$ 18,126,275	\$ 17,693,998	\$ 16,526,686	\$ 15,611,310	\$ 15,244,659	\$ 15,639,674	\$ 15,888,681
Contributions as a percentage of covered employee payroll	8.89%	8.39%	8.46%	9.18%	9.48%	8.84%	7.94%	7.34%	6.74%	6.14%

## **Supplementary Information**

**Southwest Medical Center**  
**Balance in Depository Compared with Depository Security**  
**December 31, 2019**

	<u>Bank balances</u>	<u>F.D.I.C. coverage</u>	<u>Balance subject to pledging of securities</u>	<u>Market value of securities pledged</u>	<u>Market value of securities pledged in excess of depository requirements</u>
Equity Bank	\$ 32,036,247	\$ 500,000	\$ 31,536,247	\$ 31,840,197	\$ 303,950
Community Bank	6,000,000	250,000	5,750,000	6,014,686	264,686

**Southwest Medical Center**  
**Schedule of Revenues and Expenses with Budget Comparison**  
**Year ended December 31, 2019**

	<u>Actual</u>	<u>Budget</u>	<u>Over (under)</u>
Net patient service revenue	\$ 72,524,480	\$ 63,401,000	\$ 9,123,480
Other	<u>634,847</u>	<u>449,007</u>	<u>185,840</u>
Total operating revenues	73,159,327	63,850,007	9,309,320
Total operating expenses	<u>66,325,319</u>	<u>58,932,014</u>	<u>7,393,305</u>
Operating income	6,834,008	4,917,993	1,916,015
Nonoperating revenues (expenses)	<u>(176,121)</u>	<u>(308,005)</u>	<u>131,884</u>
Excess of revenues over expenses before capital grants and contributions	<u><u>\$ 6,657,887</u></u>	<u><u>\$ 4,609,988</u></u>	<u><u>\$ 2,047,899</u></u>

**Southwest Medical Center  
Summary of Insurance Coverage  
December 31, 2019**

<u>Insurer</u>	<u>Type of coverage</u>	<u>Coverage amount</u>	<u>Term</u>
KaMMCO Insurance Company	Hospital professional liability Other liability Personal injury/property	HPL \$200,000/\$600,000 PL \$1,000,000/\$3,000,000 PIP \$1,000,000/\$1,000,000	November 21, 2019 to November 21, 2020
Kansas Health Care Provider Insurance Availability Act	Excess hospital professional liability	\$800,000/\$2,400,000	November 21, 2019 to November 21, 2020
KaMMCO Insurance Company	Umbrella liability	\$2,000,000/\$2,000,000	November 21, 2019 to November 21, 2020
Cincinnati Financial	Directors, Officers, and Trustees liability Employment practices liability Fiduciary and Trustee liability	\$2,000,000/\$2,000,000 \$2,000,000/\$2,000,000 \$2,000,000/\$2,000,000	January 1, 2019 to January 1, 2020
KaMMCO Insurance Company	Fire legal liability	\$50,000/\$50,000	November 21, 2019 to November 21, 2020
KaMMCO Insurance Company	Cyber liability	\$1,000,000/\$1,000,000	November 21, 2019 to November 21, 2020
KS KUST Liability Plan	Underground Storage Tank	\$500,000/\$1,000,000	February 16, 2019 to February 16, 2020
Chubb Insurance	Property	Real - \$58,547,423 Personal - \$22,487,480 Business interruption - \$31,631,868	January 1, 2019 to January 1, 2020
Cincinnati Financial	Auto liability and physical damage	\$1,000,000/\$1,000,000	January 1, 2019 to January 1, 2020

**Southwest Medical Center  
Summary of Insurance Coverage - Continued  
December 31, 2019**

<u>Insurer</u>	<u>Type of coverage</u>	<u>Coverage amount</u>	<u>Term</u>
Cincinnati Financial	Commercial crime	Employee theft - \$500,000 Forgery/alteration - \$250,000 Theft of money and securities - inside premises - \$25,000 Money and securities – outside premises - \$5,000 Computer fraud - \$250,000 Fund transfer fraud - \$250,000 Social engineering - \$250,000 Money orders and counterfeit Money - \$25,000	January 1, 2019 to January 1, 2020
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, 2019 to January 1, 2020