Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2024 and 2023

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
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December 31, 2024 and 2023

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Independent Auditor's Report

Board of Trustees
Fredonia Regional Hospital
Fredonia, Kansas

Opinion

We have audited the financial statements of Fredonia Regional Hospital, a component unit of the City of Fredonia, Kansas, as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise Fredonia Regional Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Fredonia Regional Hospital as of December 31, 2024 and 2023, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 Fredonia Regional Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Fredonia Regional Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, 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 Fredonia Regional Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Fredonia Regional Hospital's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Forvis Mazars, LLP

Wichita, Kansas
June 16, 2025

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Balance Sheets
December 31, 2024 and 2023

	2024	2023
Assets and Deferred Outflows of Resources		
Current Assets		
Cash	$ 572,775	$ 906,515
Certificates of deposit	1,445,564	1,417,869
Held by trustee for debt service	239,193	237,694
Patient accounts receivable, net of allowance 2024 - $804,516; 2023 - $579,597	2,027,741	1,661,556
Estimated amounts due from third-party payers	51,667	44,288
Other receivables	183,443	-
Supplies	267,979	264,226
Grants receivable	2,461	2,470
Prepaid expenses and other	354,117	352,686
Total Current Assets	5,144,940	4,887,304
Noncurrent Cash and Investments		
Designated by Board of Trustees	27,930	24,116
Restricted by donors for capital acquisitions and specific operating activities	2,578	95,221
Held by trustee for debt service	733,245	730,827
Total Noncurrent Cash and Investments	763,753	850,164
Capital Assets, Net	5,011,566	5,637,291
Subscription Assets, Net	276,428	691,072
Total Assets	11,196,687	12,065,831
Deferred Outflows of Resources		
Unamortized loss on refunding of long-term debt	378,132	431,179
Total Assets and Deferred Outflows of Resources	$ 11,574,819	$ 12,497,010

See Notes to Financial Statements

	2024	2023
Liabilities and Net Position (Deficit)		
Current Liabilities		
Current maturities of long-term debt	$ 464,926	$ 454,298
Current portion of subscription liability	293,175	425,437
Accounts payable	578,277	364,063
Accrued salaries and wages	174,602	134,955
Accrued vacation benefits	208,027	199,837
Accrued interest payable	80,125	83,210
Estimated amounts due to third-party payers	700,000	605,029
Total Current Liabilities	2,499,132	2,266,829
Long-term Debt	6,443,149	6,908,075
Subscription Liability	-	293,175
Total Liabilities	8,942,281	9,468,079
Net Position (Deficit)		
Net deficit in capital assets	(1,913,256)	(1,752,622)
Restricted - expendable for		
Debt service	972,438	968,521
Capital acquisitions and specific operating activities	2,578	95,221
Unrestricted	3,570,778	3,717,811
Total Net Position	2,632,538	3,028,931
Total Liabilities and Net Position	$ 11,574,819	$ 12,497,010

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2024 and 2023

	2024	2023
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts: 2024 - $639,553; 2023 - $566,860	$ 13,307,966	$ 12,509,710
Other	994,298	372,991
Total Operating Revenues	14,302,264	12,882,701
Operating Expenses		
Salaries and wages	6,686,991	5,278,269
Employee benefits	1,197,146	1,040,400
Supplies and other	6,543,276	6,742,529
Amortization	414,644	414,644
Depreciation	926,922	920,040
Total Operating Expenses	15,768,979	14,395,882
Operating Loss	(1,466,715)	(1,513,181)
Nonoperating Revenues (Expenses)		
Noncapital appropriations – City of Fredonia and Wilson County	1,202,603	1,064,908
Interest income	99,215	69,908
Interest expense	(307,120)	(333,494)
Gain on sale of capital assets	18,526	-
Noncapital grants and gifts	57,098	239,284
Total Nonoperating Revenues	1,070,322	1,040,606
Decrease in Net Position	(396,393)	(472,575)
Net Position, Beginning of Year	3,028,931	3,501,506
Net Position, End of Year	$ 2,632,538	$ 3,028,931

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	$ 12,845,930	$ 13,047,588
Payments to suppliers and contractors	(6,337,331)	(6,810,798)
Payments to employees	(7,836,300)	(6,270,655)
Other receipts, net	994,298	372,991
Net Cash Provided by (Used in) Operating Activities	(333,403)	339,126
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - City of Fredonia and Wilson County	1,202,603	1,064,908
Noncapital grants and gifts	57,107	271,087
Net Cash Provided by Noncapital Financing Activities	1,259,710	1,335,995
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(454,298)	(448,765)
Interest paid on long-term debt	(234,510)	(242,487)
Proceeds from disposal of capital assets	28,500	-
Principal paid on subscription liability	(425,437)	(408,845)
Interest paid on subscription liability	(19,563)	(36,155)
Purchases of capital assets	(311,171)	(672,413)
Net Cash Used in Capital and Related Financing Activities	(1,416,479)	(1,808,665)
Cash Flows From Investing Activities		
Interest income	99,215	69,908
Purchases of investments	(2,418,002)	(2,088,802)
Proceeds from disposition of investments	2,386,390	2,342,674
Net Cash Provided by Investing Activities	67,603	323,780
Increase (Decrease) in Cash	(422,569)	190,236
Cash, Beginning of Year	1,025,852	835,616
Cash, End of Year	$ 603,283	$ 1,025,852

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Statements of Cash Flows - Continued
Years Ended December 31, 2024 and 2023

	2024	2023
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	$ 572,775	$ 906,515
Cash designated by Board of Trustees	27,930	24,116
Cash restricted by donors	2,578	95,221
	$ 603,283	$ 1,025,852
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (1,466,715)	$ (1,513,181)
Depreciation	926,922	920,040
Amortization	414,644	414,644
Provision for uncollectible accounts	639,553	566,860
Changes in operating assets and liabilities		
Patient accounts receivable	(1,005,738)	(945,253)
Estimated amounts due from and to third-party payers	87,592	916,271
Other Accounts Receivables	(183,443)	-
Prepaid expenses and other	(5,184)	(1,653)
Accounts payable	214,214	(64,001)
Accrued expenses	44,752	45,399
Net Cash Provided by (Used in) Operating Activities	$ (333,403)	$ 339,126
Noncash Investing, Capital and Financial Activities		
Amortization of loss on refunding	$ 53,047	$ 54,852
Capital asset cost deletions	$ 204,817	$ -
Capital asset accumulated depreciation deletions	$ 194,843	$ -

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Fredonia Regional Hospital (Hospital) is a municipal hospital located in Fredonia, Kansas. The Hospital is a component unit of the City of Fredonia, Kansas (City). The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care, physician services and rural health clinic services. The Hospital is licensed as a critical access hospital (CAH).

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources 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 those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents for the years ended December 31, 2024 and 2023.

Investments

Investments in U.S. Treasury, agency and instrumentality obligations (money market investments) with a remaining maturity of one year or less at time of acquisition are carried at fair value. Nonnegotiable certificates of deposit are carried at amortized cost.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost or market. Costs are determined using the first-in, first-out method.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 – 20 years
Buildings and leasehold improvements	10 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 10 years

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at, and certain prepayments made before, the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Capital and Subscription Asset Impairment

The Hospital evaluates capital and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or subscription asset has occurred. If a capital or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation or amortization is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2024 and 2023.

Deferred Outflows of Resources

The Hospital reports the consumption of net position that is applicable to a future reporting period as deferred outflows of resources in a separate section of its balance sheets.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; professional liability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Net Position

Net position of the Hospital is classified in three components on its balance sheets.

- Net deficit in capital assets consists of capital and subscription assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.

- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.

- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

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

Noncapital Appropriations – City of Fredonia and Wilson County

The Hospital received approximately 8% in 2024 and 2023 of its financial support from noncapital appropriations from the City of Fredonia's 1% sales tax and Wilson County property tax levy.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations – City of Fredonia and Wilson County is recognized in full in the year in which use is first permitted.

Income Taxes

As an essential government function of the City, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Revision

An immaterial revision has been made to the 2023 Statement of Revenues, Expenses and Changes in Net Position to align the classification of certain expenses with the 2024 presentation. As a result, net patient service revenue and operating expenses increased by approximately $275,000. Corresponding adjustments were made to related line items in the statement of cash flows; however, the total cash provided by operating activities remained unchanged. These revisions had no impact on the change in net position or the balance sheet.

Note 2. Deposits and Investments

Deposits

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 Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2024 and 2023, respectively, $1,669,855 and $2,037,638 of the Hospital's bank balances of $2,169,855 and $2,537,638 were exposed to custodial credit risk as follows:

	2024	2023
Uninsured and collateral held by pledging financial institution	$ 1,669,855	$ 2,037,638

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

All of the Hospital's held by trustee for debt service investments were invested in short-term U.S. treasuries (money market investments) with a remaining maturity of one year or less at the time of acquisition at December 31, 2024 and 2023, and are carried at fair value.

Summary of Carrying Values

The carrying values of deposits and investments are included in the balance sheets as follows:

	2024	2023
Carrying value		
Deposits	$ 2,048,847	$ 2,443,721
Investments	972,438	968,521
	$ 3,021,285	$ 3,412,242

Included in the following balance sheet captions:

	2024	2023
Cash	$ 572,775	$ 906,515
Certificates of deposit	1,445,564	1,417,869
Held by trustee for debt service - current	239,193	237,694
Designated by Board of Trustees	27,930	24,116
Restricted by donors for capital acquisitions and specific operating activities	2,578	95,221
Held by trustee for debt service	733,245	730,827
	$ 3,021,285	$ 3,412,242

Note 3. Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	2024	2023
Medicare	$ 903,180	$ 710,398
Medicaid	144,176	53,672
Blue Cross	205,353	151,935
Commercial	621,804	441,447
Private pay	957,744	883,701
	2,832,257	2,241,153
Less allowance for uncollectible accounts	(804,516)	(579,597)
	$ 2,027,741	$ 1,661,556

Note 4. Capital and Subscription Assets

Capital assets activity for the years ended December 31 was:

	2024				
	Beginning Balance	Additions	Deletions	Transfer	Ending Balance
Land	$ 25,474	$ -	$ -	$ -	$ 25,474
Land improvements	984,915	-	-	-	984,915
Buildings	11,796,314	9,752	-	92,953	11,899,019
Fixed equipment	1,514,918	16,921	(787)	-	1,531,052
Moveable equipment	5,124,662	284,498	(204,030)	-	5,205,130
Construction in progress	92,953	-	-	(92,953)	-
	19,539,236	311,171	(204,817)	-	19,645,590
Less accumulated depreciation					
Land improvements	(739,864)	(28,376)	-	-	(768,240)
Buildings	(8,837,948)	(277,961)	-	-	(9,115,909)
Fixed equipment	(847,185)	(92,332)	787	-	(938,730)
Moveable equipment	(3,476,948)	(528,253)	194,056	-	(3,811,145)
	(13,901,945)	(926,922)	194,843	-	(14,634,024)
Capital assets, net	$ 5,637,291	$ (615,751)	$ (9,974)	$ -	$ 5,011,566

	2023				
	Beginning Balance	Additions	Deletions	Transfer	Ending Balance
Land	$ 25,474	$ -	$ -	$ -	$ 25,474
Land improvements	976,795	8,120	-	-	984,915
Buildings	11,753,855	42,459	-	-	11,796,314
Fixed equipment	1,571,866	22,697	(79,645)	-	1,514,918
Moveable equipment	4,996,024	578,224	(491,320)	41,734	5,124,662
Construction in progress	113,774	20,913	-	(41,734)	92,953
	19,437,788	672,413	(570,965)	-	19,539,236
Less accumulated depreciation					
Land improvements	(701,730)	(38,134)	-	-	(739,864)
Buildings	(8,470,991)	(366,957)	-	-	(8,837,948)
Fixed equipment	(836,122)	(90,708)	79,645	-	(847,185)
Moveable equipment	(3,544,027)	(424,241)	491,320	-	(3,476,948)
	(13,552,870)	(920,040)	570,965	-	(13,901,945)
Capital assets, net	$ 5,884,918	$ (247,627)	$ -	$ -	$ 5,637,291

Subscription assets activity for the years ended December 31 was:

	2024				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription IT assets	$ 1,520,360	$ -	$ -	$ -	$ 1,520,360
Less accumulated amortization Subscription IT assets	(829,288)	(414,644)	-	-	(1,243,932)
Subscription assets, net	$ 691,072	$ (414,644)	$ -	$ -	$ 276,428

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription IT assets	$ 1,520,360	$ -	$ -	$ -	$ 1,520,360
Less accumulated amortization Subscription IT assets	(414,644)	(414,644)	-	-	(829,288)
Subscription assets, net	$ 1,935,004	$ (414,644)	$ -	$ -	$ 691,072

Note 5. Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2024				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Series 2021 Refunding Revenue Bonds	$ 7,362,373	$ -	$ 454,298	$ 6,908,075	$ 464,926
Subscription liabilities	718,612	-	425,437	293,175	293,175
	$ 8,080,985	$ -	$ 879,735	$ 7,201,250	$ 758,101

	2023				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Series 2021 Refunding Revenue Bonds	$ 7,811,138	$ -	$ 448,765	$ 7,362,373	$ 454,298
Subscription liabilities	1,127,457		408,845	718,612	425,437
	$ 8,938,595	$ -	$ 857,610	$ 8,080,985	$ 879,735

Series 2021 Refunding Revenue Bonds

In April 2021, the Hospital issued $8,590,000 City of Fredonia, Kansas Hospital Refunding Revenue Bonds, Series 2021 (2021 Bonds). The 2021 Bonds are payable in annual installments through August 15, 2036, and bear interest at rates of 1% to 3.5%. The 2021 Bonds are secured by the net revenues of the Hospital.

Upon issuance and delivery of the Series 2021 Bonds, the Hospital defeased its outstanding Series 2016 bonds. Funds were deposited in trust under an escrow agreement sufficient in amount to pay future principal and interest on the defeased bonds. This advance refunding transactions resulted in an extinguishment of debt since the Hospital was legally defeased from its obligation on the Series 2016 bonds at the time of defeasance. The advance refunding of the Series 2016 bonds resulted in an overall future economic benefit for the Hospital. However, an accounting loss of $542,379 on the extinguishment of the long-term debt was recorded in 2021. This loss on refunding is shown as a deferred outflow of resources in the balance sheets and is being amortized using the straight-line method over the life of the Series 2021 Bonds.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service and restricted cash and investments - current in the balance sheets. The indenture agreements also require the Hospital to comply with certain restrictive covenants including maintaining a historical debt-service coverage of at least 1.10 or maintaining a minimum days' cash on hand of 75 days, which includes the Fredonia Regional Health Care Foundation, Inc.'s operations and cash. The Hospital is required to meet either a historical debt-service coverage ratio or a days' cash on hand ratio, this requirement was met for the years ended December 31, 2024 and 2023.

Subscription Liabilities

The Hospital has one subscription-based information technology arrangement (SBITAs), the term of which expires in 2025. The subscription requires monthly payments of approximately $37,000.

The following is a schedule by year of payments under the SBITAs as of December 31, 2024:

Year Ending December 31	Total to Be Paid	Principal	Interest
2025	$ 296,666	$ 293,175	$ 3,491

Debt Service Requirements

Debt service requirements on long-term debt as of December 31, 2024, are as follows:

Year Ending December 31,	Series 2021 Refunding Revenue Bonds Payable	
	Principal	Interest
2025	$ 464,926	$ 213,668
2026	470,650	204,068
2027	486,476	193,155
2028	497,407	180,655
2029	513,420	166,885
2030-2034	2,825,357	587,785
2035-2036	1,649,839	93,625
	$ 6,908,075	$ 1,639,841

Note 6. Professional Liability Claims

The Hospital purchases professional liability insurance under a claims-made policy with a fixed premium which provides $500,000 of coverage for each medical incident and $1,500,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional $500,000 of coverage for each medical incident and $1,500,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of professional liability claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7. Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital is recognized as a CAH. Under CAH rules, inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of cost subject to certain limitations. Inpatient geriatric psych services rendered to Medicare program beneficiaries are paid based on a blend of prospective payment rates and cost subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future.

Approximately 91% and 87% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2024 and 2023, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 8. Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately $3,000 and $22,000 for December 31, 2024 and 2023, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 9. Management/Services Agreement

The Board of Trustees has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2024 and 2023, were $823,932 and $822,143, respectively. Amounts included in accounts payable related to these services totaled $2,008 and $2,162 at December 31, 2024 and 2023, respectively.

Note 10. Pension Plan

The Hospital maintains a defined contribution plan (401(a) plan) covering all employees. Employer and mandated employee contributions are computed at 4% and 3% of the covered payroll, respectively. The contributions are invested as each employee directs. Each participant chooses which accounts to use and may change the election once each calendar year. Contributions actually made by plan members and the Hospital aggregated $130,441 and $173,259 during 2024 and $102,600 and $136,667 during 2023, respectively. The Hospital does not control the plan assets.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Contributions made by plan members totaled $80,023 and $64,904 during 2024 and 2023, respectively. The plan year begins on January 1 and ends December 31. The Hospital does not control the plan assets

Note 11. Fredonia Regional Health Care Foundation, Inc.

The Fredonia Regional Health Care Foundation, Inc. (Foundation) is a nonprofit organized to perpetuate the advancement of health, health care and medical education, research and welfare services for residents of Fredonia, Kansas and its outlaying regions. The Foundation is not considered a component unit of the Hospital. The Foundation contributed $0 to the Hospital in 2024 and 2023.