

Independent Auditor's Report and Financial Statements
Sedan City Hospital
September 30, 2019 and 2018

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Independent Auditor's Report

Board of Trustees
Sedan City Hospital

We have audited the accompanying financial statements of the business-type activity of Sedan City Hospital (Hospital), as of and for the years ended September 30, 2019 and 2018, which collectively comprise the Hospital's financial statements as listed in the table of contents, and the related notes to the financial statements.

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. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 above present fairly, in all material respects, the financial position of the business-type activity of Sedan City Hospital as of September 30, 2019 and 2018, and the changes in its net 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

The Hospital has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the 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 financial statements is not affected by this missing information.

Other

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Sedan City Hospital's basic financial statements as a whole. The accompanying supplementary information beginning on page 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Wendling Mac Nelson & Johnson LLC

Topeka, Kansas
March 6, 2020

Financial Statements

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

Assets

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 267,156	\$ 236,351
Patient accounts receivable, net of allowance for doubtful accounts of \$319,357 in 2019 and \$283,819 in 2018	462,290	354,737
Sales tax and other receivables	31,145	32,236
Inventories	145,119	155,921
Prepaid expenses	16,544	30,019
Estimated third-party payor settlements	<u> </u>	<u>385,579</u>
Total current assets	<u>922,254</u>	<u>1,194,843</u>
Assets limited as to use		
Internally designated by the Board	<u>36,341</u>	<u>36,271</u>
Capital assets		
Land	12,137	12,137
Depreciable capital assets, net	<u>631,965</u>	<u>760,459</u>
Total capital assets, net	<u>644,102</u>	<u>772,596</u>
Other assets	<u>9,500</u>	<u>9,500</u>
Total assets	<u>\$ 1,612,197</u>	<u>\$ 2,013,210</u>

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current liabilities		
Current maturities of capital lease payable	\$ 97,171	\$ 92,441
Current maturities of note payable to bank	109,141	
Accounts payable	112,695	126,828
Accrued expenses		
Salaries and related benefits	57,954	81,468
Vacation	78,393	79,849
Other	19,465	20,485
Estimated third-party payor settlements	<u>325,000</u>	<u>1,071,344</u>
Total current liabilities	<u>799,819</u>	<u>1,472,415</u>
Capital lease payable, net of current maturities	<u>205,553</u>	<u>302,723</u>
Note payable to bank, net of current maturities	<u>115,859</u>	<u> </u>
Total liabilities	<u>1,121,231</u>	<u>1,775,138</u>
Net position		
Invested in capital assets, net of related debt	341,378	377,432
Unrestricted	<u>149,588</u>	<u>(139,360)</u>
Total net position	<u>490,966</u>	<u>238,072</u>
Total liabilities and net position	<u>\$ 1,612,197</u>	<u>\$ 2,013,210</u>

Sedan City Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Year ended September 30,

	<u>2019</u>	<u>2018</u>
Operating revenues		
Net patient service revenue	\$ 4,459,853	\$ 3,118,926
Other	<u>34,016</u>	<u>75,705</u>
Total operating revenues	<u>4,493,869</u>	<u>3,194,631</u>
Operating expenses		
Salaries and wages	2,051,713	2,055,481
Employee benefits	473,151	439,240
Supplies and other	1,947,701	1,846,621
Depreciation and amortization	<u>181,399</u>	<u>198,234</u>
Total operating expenses	<u>4,653,964</u>	<u>4,539,576</u>
Operating loss	<u>(160,095)</u>	<u>(1,344,945)</u>
Nonoperating revenues (expenses)		
Sales tax revenue	116,101	116,905
Noncapital grants and contributions	301,222	1,816
Investment income	15,420	18,214
Loss on disposal of asset	(2,095)	
Interest expense	<u>(17,659)</u>	<u>(609)</u>
Total nonoperating revenues, net	<u>412,989</u>	<u>136,326</u>
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	252,894	(1,208,619)
Capital grants and contributions	<u> </u>	<u>17,780</u>
Change in net position	252,894	(1,190,839)
Net position at beginning of year	<u>238,072</u>	<u>1,428,911</u>
Net position at end of year	<u>\$ 490,966</u>	<u>\$ 238,072</u>

The accompanying notes are an integral part of these statements.

**Sedan City Hospital
Statements of Cash Flows
Year ended September 30,**

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 3,991,535	\$ 3,685,012
Payments to or on behalf of employees	(2,550,854)	(2,491,903)
Payments to suppliers	(1,937,557)	(1,817,267)
Other receipts and payments	<u>35,107</u>	<u>70,366</u>
Net cash used by operating activities	<u>(461,769)</u>	<u>(553,792)</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	301,222	1,816
Proceeds from sales tax	116,101	116,905
Proceeds from note payable to bank	<u>225,000</u>	<u> </u>
Net cash provided by noncapital financing activities	<u>642,323</u>	<u>118,721</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(55,000)	(203,492)
Capital grants and contributions		17,780
Principal payments on capital leases	(92,440)	(3,367)
Interest paid	<u>(17,659)</u>	<u>(609)</u>
Net cash used by capital and related financing activities	<u>(165,099)</u>	<u>(189,688)</u>
Cash flows from investing activities		
Investment income received	<u>15,420</u>	<u>18,214</u>
Net cash provided by investing activities	<u>15,420</u>	<u>18,214</u>
Change in cash and cash equivalents	30,875	(606,545)
Cash and cash equivalents at beginning of year	<u>272,622</u>	<u>879,167</u>
Cash and cash equivalents at end of year	<u>\$ 303,497</u>	<u>\$ 272,622</u>
Noncash transactions		
Capital lease obligation incurred	<u>\$ -</u>	<u>\$ 398,531</u>
Reconciliation of cash and cash equivalents to statements of net position		
Cash and cash equivalents in current assets	\$ 267,156	\$ 236,351
Cash internally designated by Board	<u>36,341</u>	<u>36,271</u>
	<u>\$ 303,497</u>	<u>\$ 272,622</u>

The accompanying notes are an integral part of these statements.

Sedan City Hospital
Statements of Cash Flows - Continued
Year ended September 30,

	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (160,095)	\$ (1,344,945)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization	181,399	198,234
Provision for bad debts	339,203	295,990
Changes in		
Patient accounts receivable	(446,756)	(201,316)
Inventory and prepaid expenses	24,277	2,214
Other assets	1,091	(5,339)
Accounts payable and accrued expenses	(40,123)	29,958
Estimated third-party payor settlements	<u>(360,765)</u>	<u>471,412</u>
Net cash used by operating activities	<u>\$ (461,769)</u>	<u>\$ (553,792)</u>

The accompanying notes are an integral part of these statements.

Sedan City Hospital
Notes to Financial Statements
September 30, 2019 and 2018

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

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

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

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

1. Basis of accounting

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

Balances classified as operating revenues and expenses are those that comprise the Hospital's principal ongoing operations. Since the Hospital's operations are similar to those of any health care provider, most revenues and expenses are considered operating.

2. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. Cash and cash equivalents

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

4. Patient receivables

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

Sedan City Hospital
Notes to Financial Statements - Continued
September 30, 2019 and 2018

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

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

5. Inventories

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

6. Assets limited as to use

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

7. Capital assets

Capital asset acquisitions in excess of \$5,000 (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 gains and losses.

8. Grants and contributions

From time to time, the Hospital 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.

9. Restricted resources

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

Sedan City Hospital
Notes to Financial Statements - Continued
September 30, 2019 and 2018

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

10. Net position

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

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

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

11. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

12. 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.

13. Charity care

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

14. Income taxes

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

Sedan City Hospital
Notes to Financial Statements - Continued
September 30, 2019 and 2018

Note B - Net Patient Service Revenue

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

Medicare - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare contractor through September 30, 2017.

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

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

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$ 6,297,075	\$ 5,286,406
Deductions from patient service revenue		
Medicare and Medicaid contractual adjustments	(920,265)	(380,272)
Change in estimate related to prior year		
Medicare cost report settlements	140,513	(854,461)
Other contractals	(667,109)	(622,920)
Provision for bad debts	(339,203)	(295,990)
Charity care	<u>(51,158)</u>	<u>(13,837)</u>
Net patient service revenue	<u>\$ 4,459,853</u>	<u>\$ 3,118,926</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 77 percent and 3 percent, respectively, of the Hospital's net patient service revenue during 2019, and 68 and 4 percent, respectively, of the Hospital'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 could change in the near term. During 2018, net patient service revenue decreased by \$854,461 and in 2019, increased by \$140,513 due to a change in the estimated settlements related to the September 30, 2015, 2016, and 2017 Medicare cost reports.

Sedan City Hospital
Notes to Financial Statements - Continued
September 30, 2019 and 2018

Note C - Capital Assets

Capital assets consist of the following:

	Balance September 30, <u>2018</u>	<u>Additions</u>	<u>Disposals</u>	Balance September 30, <u>2019</u>
Land	\$ 12,137	\$ -	\$ -	\$ 12,137
Land improvements	26,537			26,537
Buildings	554,309			554,309
Fixed equipment	224,149	55,000		279,149
Equipment	<u>1,605,808</u>		<u>44,000</u>	<u>1,561,808</u>
	<u>2,422,940</u>	<u>55,000</u>	<u>44,000</u>	<u>2,433,940</u>
Less accumulated depreciation and amortization	<u>1,650,344</u>	<u>181,399</u>	<u>41,905</u>	<u>1,789,838</u>
Capital assets, net	<u>\$ 772,596</u>	<u>\$ (126,399)</u>	<u>\$ 2,095</u>	<u>\$ 644,102</u>
	Balance September 30, <u>2017</u>	<u>Additions</u>	<u>Disposals</u>	Balance September 30, <u>2018</u>
Land	\$ 12,137	\$ -	\$ -	\$ 12,137
Land improvements	21,107	5,430		26,537
Buildings	424,156	130,153		554,309
Fixed equipment	224,149			224,149
Equipment	1,638,489	471,870	504,551	1,605,808
CIP	<u>5,430</u>	<u>(5,430)</u>		<u>-</u>
	<u>2,325,468</u>	<u>602,023</u>	<u>504,551</u>	<u>2,422,940</u>
Less accumulated depreciation and amortization	<u>1,956,661</u>	<u>198,234</u>	<u>504,551</u>	<u>1,650,344</u>
Capital assets, net	<u>\$ 368,807</u>	<u>\$ 403,789</u>	<u>\$ -</u>	<u>\$ 772,596</u>

Sedan City Hospital
Notes to Financial Statements - Continued
September 30, 2019 and 2018

Note D - Cash and Deposits

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

At September 30, 2019, the carrying amount and book value of the Hospital's deposits with financial institutions was \$303,197 and the bank balances were \$325,205. Of the bank balances, \$250,000 was covered by FDIC insurance and \$75,205 was covered by pledged securities held by a third-party bank.

Note E - Operating Leases

The Hospital leases certain equipment under various operating leases. Total rental expense for the years ended September 30, 2019 and 2018, was \$27,820 and \$126,089, respectively.

Note F - Capital Lease Payable

Capital lease payables are summarized as follows:

	<u>2019</u>	<u>2018</u>
Capital lease payable; implied interest rate of 5.00%; payable in monthly installments of \$9,175 through September 2022, collateralized by leased equipment with an amortized cost of \$295,578 at September 30, 2019	\$ 302,724	\$ 395,164
	302,724	395,164
Less current portion	<u>97,171</u>	<u>92,441</u>
Noncurrent portion	<u>\$ 205,553</u>	<u>\$ 302,723</u>

The following is a summary of changes in capital lease payables:

	Balance September 30, <u>2017</u>	Additions	Reductions	Balance September 30, <u>2018</u>
Capital leases	\$ <u>-</u>	\$ <u>398,531</u>	\$ <u>3,367</u>	\$ <u>395,164</u>
	Balance September 30, <u>2018</u>	Additions	Reductions	Balance September 30, <u>2019</u>
Capital leases	\$ <u>395,164</u>	\$ <u>-</u>	\$ <u>92,440</u>	\$ <u>302,724</u>

Sedan City Hospital
Notes to Financial Statements - Continued
September 30, 2019 and 2018

Note F - Capital Lease Payable - Continued

Scheduled capital lease payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 97,171	\$ 12,929	\$ 110,100
2021	102,142	7,958	110,100
2022	<u>103,411</u>	<u>2,713</u>	<u>106,124</u>
	<u>\$ 302,724</u>	<u>\$ 23,600</u>	<u>\$ 326,324</u>

Note G - Notes Payable to Bank

Notes payable to bank are summarized as follows:

	<u>2019</u>	<u>2018</u>
Note payable to bank; interest rate of 6.00%; payable in monthly installments of \$9,973 through September 2021	<u>\$ 225,000</u>	<u>\$ -</u>
	225,000	-
Less current portion	<u>109,141</u>	<u>-</u>
Noncurrent portion	<u>\$ 115,859</u>	<u>\$ -</u>

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

	Balance September 30, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance September 30, <u>2019</u>
Note payable	<u>\$ -</u>	<u>\$ 225,000</u>	<u>\$ -</u>	<u>\$ 225,000</u>

Scheduled notes payable payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 109,141	\$ 10,531	\$ 119,672
2021	<u>115,859</u>	<u>3,799</u>	<u>119,658</u>
	<u>\$ 225,000</u>	<u>\$ 14,330</u>	<u>\$ 239,330</u>

Sedan City Hospital
Notes to Financial Statements - Continued
September 30, 2019 and 2018

Note H - Retirement Plan

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

Note I - Concentration of Credit Risk

The Hospital is located in Sedan, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2019</u>	<u>2018</u>
Medicare and Medicaid	33 %	27 %
Other third-party payors	30	31
Patients	<u>37</u>	<u>42</u>
	<u>100 %</u>	<u>100 %</u>

Note J - Other Related Party Transaction

The Hospital has entered into a management and operating agreement with Jane Phillips Medical Center. The Hospital incurred expenses of \$104,390 and \$138,071 for these services for the years ended September 30, 2019 and 2018, respectively. At September 30, 2019 and 2018, the Hospital owed \$14,197 and \$43,131, respectively, to Jane Phillips Medical Center. The amounts owed are included in accounts payable on the statements of net position.

Note K - Risk Management

For the years ended September 30, 2019 and 2018, the Hospital was insured for hospital 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 Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2019, for the policy period from January 1, 2019 to January 1, 2020.

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

Sedan City Hospital
Notes to Financial Statements - Continued
September 30, 2019 and 2018

Note L - Management's Consideration of Going Concern Matters

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles which contemplate continuation of the Hospital as a going concern. The Hospital, however, incurred an operating losses of \$160,095 and \$1,344,945 in 2019 and 2018, respectively. The larger than normal loss in 2018 resulted from change in estimates related to prior year Medicare cost reports which were under a focused desk review. Total net position increased by \$252,894 in 2019, primarily the result of a contribution which helped restore the working capital ratio as current assets represent 115 percent of current liabilities.

While this represents an improvement over 2018, recoverability of a major portion of the recorded asset amounts shown in the accompanying statement of net position is dependent upon continued operations of the Hospital which, in turn, is dependent upon the Hospital's ability to meet its financing requirements on a continuing basis, to maintain present financing, and to succeed in its future operations. The financial statements do not include any adjustments related to the recoverability of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Hospital be unable to continue in existence.

The Hospital's board and management team recognizes the issues presented with the ongoing changes expected from lower Medicare reimbursement and are working on plans to address the reduction in reimbursement. Immediate plans are to identify ways to increase revenues and community support and to also review expenses to determine if there are any expense reductions that may be implemented.

Management has approached the City about annexing a local Dollar General store which would enhance revenues collected by the City's one percent sales tax. Discussion has also began regarding the possibility of implementing an annual fundraising event to provide routine annual support for Hospital operations. The Hospital is also looking for ways to enhance collection rates on amounts currently written off to bad debts and will keep monitoring and supporting legislative efforts to expand Medicaid coverage in the State of Kansas.

Management believes that the actions taken will enable the Hospital to generate sufficient cash flows to sustain operations.

Note M - Subsequent Events

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

Supplementary Information

**Sedan City Hospital
Patient Service Revenue
Year ended September 30,**

	2019			2018		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Daily patient services						
Emergency room	\$ 57,213	\$ 1,360,612	\$ 1,417,825	\$ 57,048	\$ 1,201,180	\$ 1,258,228
Routine care	<u>466,356</u>	<u>186,047</u>	<u>652,403</u>	<u>415,346</u>	<u>174,153</u>	<u>589,499</u>
	<u>523,569</u>	<u>1,546,659</u>	<u>2,070,228</u>	<u>472,394</u>	<u>1,375,333</u>	<u>1,847,727</u>
Other professional services						
Central supply	13,588	32,284	45,872	16,998	29,936	46,934
Laboratory	306,495	955,466	1,261,961	244,403	822,807	1,067,210
Pharmacy	187,564	274,543	462,107	169,423	149,668	319,091
Therapy services	118,352	681,048	799,400	90,568	606,332	696,900
Radiology	131,946	1,254,525	1,386,471	109,269	1,006,582	1,115,851
Respiratory therapy	92,723	14,524	107,247	67,766	5,270	73,036
Wound care	<u>306</u>	<u>163,483</u>	<u>163,789</u>	<u>827</u>	<u>118,830</u>	<u>119,657</u>
	<u>850,974</u>	<u>3,375,873</u>	<u>4,226,847</u>	<u>699,254</u>	<u>2,739,425</u>	<u>3,438,679</u>
Gross patient service revenue	<u>\$ 1,374,543</u>	<u>\$ 4,922,532</u>	<u>6,297,075</u>	<u>\$ 1,171,648</u>	<u>\$ 4,114,758</u>	<u>5,286,406</u>
Less adjustments						
Third-party contractual allowances			1,446,861			1,857,653
Charity care			51,158			13,837
Provision for bad debts			<u>339,203</u>			<u>295,990</u>
Total contractual adjustments			<u>1,837,222</u>			<u>2,167,480</u>
Net patient service revenue			<u>\$ 4,459,853</u>			<u>\$ 3,118,926</u>

**Sedan City Hospital
Other Revenue
Year ended September 30,**

	<u>2019</u>	<u>2018</u>
Other revenue		
Cafeteria	\$ 7,227	\$ 7,727
Central stores	446	3,315
Pharmacy rebates	5,589	14,591
Medical records	666	788
Laboratory	410	230
Administration	1,678	24,608
Maintenance		6,446
Rental income	<u>18,000</u>	<u>18,000</u>
 Total other revenue	 <u>\$ 34,016</u>	 <u>\$ 75,705</u>

Sedan City Hospital
Operating Expenses by Functional Division
Year ended September 30,

	2019			2018		
	<u>Salaries</u>	<u>Supplies and expenses</u>	<u>Total</u>	<u>Salaries</u>	<u>Supplies and expenses</u>	<u>Total</u>
Daily patient services						
Emergency room	\$ 353,717	\$ 279,503	\$ 633,220	\$ 381,663	\$ 257,819	\$ 639,482
Routine care	<u>733,421</u>	<u>118,954</u>	<u>852,375</u>	<u>715,152</u>	<u>102,137</u>	<u>817,289</u>
	<u>1,087,138</u>	<u>398,457</u>	<u>1,485,595</u>	<u>1,096,815</u>	<u>359,956</u>	<u>1,456,771</u>
Other professional services						
Central supply	55,525	50,144	105,669	53,514	31,164	84,678
Laboratory	181,940	258,425	440,365	176,454	221,779	398,233
Pharmacy	5,771	122,571	128,342	4,760	98,270	103,030
Therapies	179	226,206	226,385	1,733	195,980	197,713
Radiology	191,571	78,259	269,830	197,008	111,062	308,070
Wound care	<u> </u>	<u>74,371</u>	<u>74,371</u>	<u>1,468</u>	<u>37,358</u>	<u>38,826</u>
	<u>434,986</u>	<u>809,976</u>	<u>1,244,962</u>	<u>434,937</u>	<u>695,613</u>	<u>1,130,550</u>
General services						
Dietary	90,205	34,528	124,733	88,795	33,269	122,064
Housekeeping	51,550	8,508	60,058	49,964	9,383	59,347
Laundry and linen		16,993	16,993		15,659	15,659
Medical records	91,648	3,094	94,742	93,815	2,787	96,602
Operation of plant	<u>42,801</u>	<u>186,467</u>	<u>229,268</u>	<u>42,242</u>	<u>190,057</u>	<u>232,299</u>
	<u>276,204</u>	<u>249,590</u>	<u>525,794</u>	<u>274,816</u>	<u>251,155</u>	<u>525,971</u>
Administrative services						
Administrative	253,385	489,678	743,063	248,913	539,897	788,810
Employee benefits	<u> </u>	<u>473,151</u>	<u>473,151</u>	<u> </u>	<u>439,240</u>	<u>439,240</u>
	<u>253,385</u>	<u>962,829</u>	<u>1,216,214</u>	<u>248,913</u>	<u>979,137</u>	<u>1,228,050</u>
Depreciation	<u> </u>	<u>181,399</u>	<u>181,399</u>	<u> </u>	<u>198,234</u>	<u>198,234</u>
Total expenses	<u>\$ 2,051,713</u>	<u>\$ 2,602,251</u>	<u>\$ 4,653,964</u>	<u>\$ 2,055,481</u>	<u>\$ 2,484,095</u>	<u>\$ 4,539,576</u>