

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
SEDAN CITY HOSPITAL
SEPTEMBER 30, 2017 AND 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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, 2017 and 2016, 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 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, 2017 and 2016, 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 16 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.

Wendy Rae Nelson & Johnson 22c
Topeka, Kansas
March 6, 2018

FINANCIAL STATEMENTS

SEDAN CITY HOSPITAL
STATEMENTS OF NET POSITION
September 30,

ASSETS		
	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 842,922	\$ 878,061
Patient accounts receivable, net of allowance for doubtful accounts of \$265,106 in 2017 and \$296,082 in 2016	449,411	590,565
Sales tax and other receivables	26,897	36,797
Inventories	155,587	158,782
Prepaid expenses	<u>32,567</u>	<u>19,296</u>
Total current assets	<u>1,507,384</u>	<u>1,683,501</u>
ASSETS LIMITED AS TO USE		
Internally designated by the Board	<u>36,245</u>	<u>36,220</u>
CAPITAL ASSETS		
Land	12,137	12,137
Depreciable capital assets, net	<u>356,670</u>	<u>545,159</u>
Total capital assets, net	<u>368,807</u>	<u>557,296</u>
OTHER ASSETS	<u>9,500</u>	<u>9,500</u>
Total assets	<u>\$ 1,921,936</u>	<u>\$ 2,286,517</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Current maturities of capital leases payable	\$ -	\$ 9,648
Accounts payable	99,688	106,961
Accrued expenses		
Salaries and related benefits	84,731	70,204
Vacation	71,303	80,504
Other	22,950	24,800
Estimated third-party payor settlements	<u>214,353</u>	<u>521,908</u>
Total current liabilities	<u>493,025</u>	<u>814,025</u>
CAPITAL LEASE PAYABLE, net of current maturities		<u>26,081</u>
Total liabilities	<u>493,025</u>	<u>840,106</u>
NET POSITION		
Invested in capital assets - net of related debt	368,807	521,567
Unrestricted	<u>1,060,104</u>	<u>924,844</u>
Total net position	<u>1,428,911</u>	<u>1,446,411</u>
Total liabilities and net position	<u>\$ 1,921,936</u>	<u>\$ 2,286,517</u>

SEDAN CITY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended September 30,

	<u>2017</u>	<u>2016</u>
Operating revenues		
Net patient service revenue	\$ 4,526,690	\$ 4,646,343
Other	<u>30,685</u>	<u>30,266</u>
Total operating revenues	<u>4,557,375</u>	<u>4,676,609</u>
Operating expenses		
Salaries and wages	2,225,849	2,180,266
Employee benefits	464,723	487,260
Supplies and other	1,780,040	1,765,438
Depreciation and amortization	<u>223,037</u>	<u>311,341</u>
Total operating expenses	<u>4,693,649</u>	<u>4,744,305</u>
Operating loss	<u>(136,274)</u>	<u>(67,696)</u>
Nonoperating revenues (expenses)		
Sales tax revenue	105,155	133,682
Noncapital grants and contributions	5,500	2,250
Investment income	9,525	10,141
Interest expense	<u>(1,406)</u>	<u>(10,254)</u>
Total nonoperating revenues, net	<u>118,774</u>	<u>135,819</u>
Change in net position	(17,500)	68,123
Net position at beginning of year	<u>1,446,411</u>	<u>1,378,288</u>
Net position at end of year	<u>\$ 1,428,911</u>	<u>\$ 1,446,411</u>

The accompanying notes are an integral part of these statements.

SEDAN CITY HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended September 30,

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 4,360,289	\$ 5,504,850
Payments to or on behalf of employees	(2,687,096)	(2,716,201)
Payments to suppliers	(1,797,389)	(2,000,543)
Other receipts and payments	<u>40,585</u>	<u>29,821</u>
Net cash provided (used) by operating activities	<u>(83,611)</u>	<u>817,927</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	5,500	2,250
Proceeds from sales tax	<u>105,155</u>	<u>133,682</u>
Net cash provided by noncapital financing activities	<u>110,655</u>	<u>135,932</u>
Cash flows from capital and related financing activities		
Interest paid	(1,406)	(10,254)
Principal and capital lease payments	(35,729)	(85,098)
Principal payments on line of credit		(163,978)
Purchase of capital assets	<u>(34,548)</u>	<u>(39,662)</u>
Net cash used by capital and related financing activities	<u>(71,683)</u>	<u>(298,992)</u>
Cash flows from investing activities		
Increase in assets limited as to use	(25)	(25)
Investment income received	<u>9,525</u>	<u>10,141</u>
Net cash provided by investing activities	<u>9,500</u>	<u>10,116</u>
Change in cash and cash equivalents	(35,139)	664,983
Cash and cash equivalents at beginning of year	<u>878,061</u>	<u>213,078</u>
Cash and cash equivalents at end of year	<u>\$ 842,922</u>	<u>\$ 878,061</u>

The accompanying notes are an integral part of these statements.

SEDAN CITY HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended September 30,

	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (136,274)	\$ (67,696)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	223,037	311,341
Provision for bad debts	270,052	161,600
Changes in		
Patient accounts receivable	(128,898)	(325,821)
Inventory and prepaid expenses	(10,076)	1,935
Other assets	9,900	(445)
Accounts payable and accrued expenses	(3,797)	(285,715)
Estimated third-party payor settlements	<u>(307,555)</u>	<u>1,022,728</u>
Net cash provided (used) by operating activities	<u>\$ (83,611)</u>	<u>\$ 817,927</u>

The accompanying notes are an integral part of these statements.

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

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

1. Reporting entity

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.

2. 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.

3. Use of estimates

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

4. Cash and cash equivalents

Cash and cash equivalents include highly-liquid investments with an original maturity of three months or less excluding any such amounts included with assets limited as to use.

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

5. Patient receivables

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

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

6. Inventories

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

7. 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.

8. 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.

9. 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.

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2017 and 2016

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

10. Restricted resources

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

11. Net position

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

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

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

12. Operating revenues and expenses

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

13. Net patient service revenue

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

14. Charity care

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

15. Income taxes

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

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2017 and 2016

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, 2014, see Note L.

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>2017</u>	<u>2016</u>
Gross patient service revenue	\$ 6,445,626	\$ 5,867,317
Deductions from patient service revenue		
Medicare and Medicaid contractual adjustments	(863,101)	(458,123)
Other contractals	(738,300)	(516,743)
Provision for bad debts	(270,052)	(161,600)
Charity care	<u>(47,483)</u>	<u>(84,508)</u>
Net patient service revenue	<u>\$ 4,526,690</u>	<u>\$ 4,646,343</u>

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2017 and 2016

NOTE B - NET PATIENT SERVICE REVENUE - Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 77 percent and 1 percent, respectively, of the Hospital's net patient service revenue during 2017, and 77 and 3 percent, respectively, of the Hospital's net patient service revenue during 2016. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change in the near term.

NOTE C - CAPITAL ASSETS

Capital assets consist of the following:

	Balance September 30, 2016	Additions	Disposals	Balance September 30, 2017
Land	\$ 12,137	\$ -	\$ -	\$ 12,137
Land improvements	21,107			21,107
Buildings	406,569	17,587		424,156
Fixed equipment	253,938		29,789	224,149
Equipment	1,626,958	11,531		1,638,489
CIP		5,430		5,430
	<u>2,320,709</u>	<u>34,548</u>	<u>29,789</u>	<u>2,325,468</u>
Less accumulated depreciation and amortization	<u>1,763,413</u>	<u>223,037</u>	<u>29,789</u>	<u>1,956,661</u>
Capital assets, net	<u>\$ 557,296</u>	<u>\$ (188,489)</u>	<u>\$ -</u>	<u>\$ 368,807</u>

	Balance September 30, 2015	Additions	Disposals	Balance September 30, 2016
Land	\$ 12,137	\$ -	\$ -	\$ 12,137
Land improvements	21,107			21,107
Buildings	406,569			406,569
Fixed equipment	214,276	39,662		253,938
Equipment	1,586,521	40,437		1,626,958
	<u>2,240,610</u>	<u>80,099</u>	<u>-</u>	<u>2,320,709</u>
Less accumulated depreciation and amortization	<u>1,452,072</u>	<u>311,341</u>		<u>1,763,413</u>
Capital assets, net	<u>\$ 788,538</u>	<u>\$ (231,242)</u>	<u>\$ -</u>	<u>\$ 557,296</u>

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2017 and 2016

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, 2017, the carrying amount and book value of the Hospital's deposits with financial institutions was \$878,867 and the bank balances were \$906,962. Of the bank balances, \$250,000 was covered by FDIC insurance and \$656,962 was covered by pledged securities held by a third-party bank.

NOTE E - LEASES

The Hospital leases certain equipment under long-term lease agreements. Certain leases have been recorded as operating leases. Total lease expense for the years ended September 30, 2017 and 2016, for operating leases was \$141,518 and \$72,317, respectively. Scheduled future minimum rental payments for operating leases that have initial or remaining noncancellable lease terms in excess of one year as of September 30, 2017, are as follows:

2018	\$ 101,940
2019	<u>76,455</u>
	<u>\$ 178,395</u>

NOTE F - CAPITAL LEASE PAYABLE

Capital lease payables are summarized as follows:

	<u>2017</u>	<u>2016</u>
Capital lease payable; implied interest rate of 4.45%; paid off in September 2017	\$ -	<u>35,729</u>
	-	35,729
Less current portion	<u>-</u>	<u>9,648</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ 26,081</u>

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2017 and 2016

NOTE F - CAPITAL LEASE PAYABLE - Continued

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

	Balance September 30, 2015	Additions	Reductions	Balance September 30, 2016
Capital leases	\$ 80,390	\$ 40,437	\$ 85,098	\$ 35,729
	Balance September 30, 2016	Additions	Reductions	Balance September 30, 2017
Capital leases	\$ 35,729	\$ -	\$ 35,729	\$ -

NOTE G - LINE OF CREDIT

The Hospital paid off its line of credit with a bank during the year ended September 30, 2016. The proceeds from the line of credit were used to acquire certified electronic health records software and accrued interest at 5 percent. There were no amounts outstanding under the agreement at September 30, 2017 and 2016.

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 employee. 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:

	2017	2016
Medicare and Medicaid	38%	45%
Other third-party payors	19	21
Patients	43	34
	<u>100%</u>	<u>100%</u>

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2017 and 2016

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 \$161,504 and \$160,569 for these services for the years ended September 30, 2017 and 2016, respectively. At September 30, 2017 and 2016, the Hospital owed \$32,921 and \$26,833, 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, 2017 and 2016, 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, 2017, for the policy period from January 1, 2017 to January 1, 2018.

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

NOTE L - CONTINGENCIES

The Hospital's September 30, 2015 Medicare cost report is under a focused review by the Hospital's Medicare contractor. The review relates to the home office costs and the allowability of these costs. The Hospital received communication on January 31, 2018, that WPS completed its review of this cost reporting year. As of the date of this report, however, the Hospital has not received a finalized Notice of Program Reimbursement for 2015. Management has included an estimate of what it anticipates will be due Medicare for September 30, 2015, 2016, and 2017 on the statement of net position.

NOTE M - SUBSEQUENT EVENTS

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

In November 2017, the Hospital entered into an agreement to replace the existing building roof at a cost of \$128,000. The roof will be funded from contributions and internally designated board funds.

SUPPLEMENTARY INFORMATION

SEDAN CITY HOSPITAL
PATIENT SERVICE REVENUE
Year ended September 30,

	2017			2016		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Daily patient services						
Emergency room	\$ 74,433	\$ 1,390,365	\$ 1,464,798	\$ 21,500	\$ 685,311	\$ 706,811
Routine care	<u>628,623</u>	<u>199,328</u>	<u>827,951</u>	<u>758,662</u>	<u>242,915</u>	<u>1,001,577</u>
	<u>703,056</u>	<u>1,589,693</u>	<u>2,292,749</u>	<u>780,162</u>	<u>928,226</u>	<u>1,708,388</u>
Other professional services						
Central supply	22,766	34,005	56,771	38,744	30,401	69,145
Laboratory	392,554	858,368	1,250,922	429,873	771,578	1,201,451
Pharmacy	278,633	168,189	446,822	321,525	193,696	515,221
Therapy services	125,130	643,812	768,942	159,831	513,981	673,812
Radiology	213,657	1,123,400	1,337,057	244,608	998,854	1,243,462
Respiratory therapy	132,538	9,599	142,137	204,071	14,489	218,560
Wound care	973	149,253	150,226	14,360	210,337	224,697
Dietary					12,581	12,581
	<u>1,166,251</u>	<u>2,986,626</u>	<u>4,152,877</u>	<u>1,413,012</u>	<u>2,745,917</u>	<u>4,158,929</u>
Gross patient service revenue	<u>\$ 1,869,307</u>	<u>\$ 4,576,319</u>	<u>6,445,626</u>	<u>\$ 2,193,174</u>	<u>\$ 3,674,143</u>	<u>5,867,317</u>
Less adjustments						
Third-party contractual allowances			1,601,401			974,866
Charity care			47,483			84,508
Provision for bad debts			<u>270,052</u>			<u>161,600</u>
Total contractual adjustments			<u>1,918,936</u>			<u>1,220,974</u>
Net patient service revenue			<u>\$ 4,526,690</u>			<u>\$ 4,646,343</u>

SEDAN CITY HOSPITAL
OTHER REVENUE
Year ended September 30,

	<u>2017</u>	<u>2016</u>
Other revenue		
Cafeteria	\$ 8,083	\$ 7,319
Central stores	260	498
Pharmacy rebates	3,059	3,330
Medical records	498	419
Laboratory	685	700
Rental income	<u>18,100</u>	<u>18,000</u>
Total other revenue	<u>\$ 30,685</u>	<u>\$ 30,266</u>

SEDAN CITY HOSPITAL
OPERATING EXPENSES BY FUNCTIONAL DIVISION
Year ended September 30,

	2017			2016		
	<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	\$ 554,703	\$ 68,824	\$ 623,527	\$ 574,680	\$ 68,826	\$ 643,506
Routine care	<u>730,982</u>	<u>112,149</u>	<u>843,131</u>	<u>703,874</u>	<u>130,227</u>	<u>834,101</u>
	<u>1,285,685</u>	<u>180,973</u>	<u>1,466,658</u>	<u>1,278,554</u>	<u>199,053</u>	<u>1,477,607</u>
Other professional services						
Central supply	50,277	26,586	76,863	48,917	51,346	100,263
Laboratory	183,438	232,743	416,181	186,583	229,532	416,115
Pharmacy	4,600	129,333	133,933	4,459	161,032	165,491
Therapies	12,439	205,218	217,657	15,263	211,426	226,689
Radiology	180,466	126,183	306,649	149,454	48,534	197,988
Wound care	<u>9,081</u>	<u>59,900</u>	<u>68,981</u>	<u>12,839</u>	<u>79,400</u>	<u>92,239</u>
	<u>440,301</u>	<u>779,963</u>	<u>1,220,264</u>	<u>417,515</u>	<u>781,270</u>	<u>1,198,785</u>
General services						
Dietary	90,054	33,659	123,713	103,987	35,722	139,709
Housekeeping	50,195	10,820	61,015	48,832	14,087	62,919
Laundry and linen		17,909	17,909		19,449	19,449
Medical records	84,850	10,702	95,552	67,543	13,182	80,725
Operation of plant	<u>40,963</u>	<u>177,468</u>	<u>218,431</u>	<u>38,649</u>	<u>161,819</u>	<u>200,468</u>
	<u>266,062</u>	<u>250,558</u>	<u>516,620</u>	<u>259,011</u>	<u>244,259</u>	<u>503,270</u>
Administrative services						
Administrative	233,801	568,546	802,347	225,186	540,856	766,042
Employee benefits	<u> </u>	<u>464,723</u>	<u>464,723</u>	<u> </u>	<u>487,260</u>	<u>487,260</u>
	<u>233,801</u>	<u>1,033,269</u>	<u>1,267,070</u>	<u>225,186</u>	<u>1,028,116</u>	<u>1,253,302</u>
Depreciation	<u>-</u>	<u>223,037</u>	<u>223,037</u>	<u>-</u>	<u>311,341</u>	<u>311,341</u>
Total expenses	<u>\$ 2,225,849</u>	<u>\$ 2,467,800</u>	<u>\$ 4,693,649</u>	<u>\$ 2,180,266</u>	<u>\$ 2,564,039</u>	<u>\$ 4,744,305</u>