

**Independent Auditor's Report and Financial Statements
Newman Memorial County Hospital
d/b/a Newman Regional Health
December 31, 2022 and 2021**

Contents

	Page
Management's Discussion and Analysis	1
Independent Auditor's Report	6
Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses, and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	13
Required Supplementary Information	
Schedule of the Hospital's Proportionate Share of the Net Defined Pension Plan Liability	39
Schedule of Hospital Contributions to Defined Pension Plan	40
Schedule of Changes in the Hospital's Total OPEB Liability and Related Ratios	41
Supplementary Information	
Schedule of Expenditures of Federal Awards	43
Notes to the Schedule of Expenditures of Federal Awards	44
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	47
Schedule of Findings and Questioned Costs	49

**Newman Memorial County Hospital d/b/a Newman Regional Health
Management's Discussion and Analysis
Years ended December 31, 2022 and 2021**

Our discussion and analysis of the financial performance of Newman Regional Health provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2022 and 2021. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital's net position decreased by \$4,095,194 or 26.8 percent in 2022 as compared to an increase of \$11,795,964 or 337 percent in 2021.

The Hospital reported an operating loss of \$7,332,214 in 2022 compared to an operating loss of \$534,805 in 2021. Significant items that affected the change in this loss from 2021 to 2022 are discussed in this management's discussion and analysis.

Using these financial statements

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

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources including all restricted and unrestricted assets and all liabilities using the accrual basis of accounting in a way that helps answer this question. Revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

**Newman Memorial County Hospital d/b/a Newman Regional Health
Management's Discussion and Analysis - Continued
Years ended December 31, 2022 and 2021**

Assets, deferred outflows, liabilities, deferred inflows, and net position

The Hospital's statements of net position as of the end of each of the last three years are summarized as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Assets			
Current assets	\$ 28,055,388	\$ 39,749,680	\$ 40,869,520
Assets limited as to use	1,604,782	1,471,104	2,012,549
Capital assets, net	29,017,482	27,292,789	27,871,603
Other assets	<u>3,015,514</u>	<u>1,687,734</u>	<u>2,165,476</u>
Total assets	<u>61,693,166</u>	<u>70,201,307</u>	<u>72,919,148</u>
Deferred outflows related to advance debt refunding	<u>-</u>	<u>-</u>	<u>26,427</u>
Liabilities			
Current liabilities	(8,060,762)	(15,809,919)	(19,848,123)
Long-term obligations	<u>(18,169,507)</u>	<u>(17,678,829)</u>	<u>(26,660,275)</u>
Total liabilities excluding net pension and OPEB liabilities	<u>(26,230,269)</u>	<u>(33,488,748)</u>	<u>(46,508,398)</u>
Deferred inflows related to lease receivables	(3,038,483)	(1,603,182)	(2,426,488)
Pension and OPEB liabilities net of deferred outflows and net deferred inflows of resources related to pension and OPEB plans	<u>(21,227,789)</u>	<u>(19,817,558)</u>	<u>(20,514,834)</u>
Net position	<u>\$ 11,196,625</u>	<u>\$ 15,291,819</u>	<u>\$ 3,495,855</u>

Beginning in March 2020, the Hospital, along with all health care providers was impacted by the worldwide coronavirus pandemic. Patient volumes were disrupted and expenses were impacted by shortages in labor and certain supply and drug costs. Outpatient volumes decreased in 2020 from suspension of elective procedures and stay at home practices. In response, the United States Government passed the Coronavirus Aid, Relief, and Economic Security Act (CARES) and subsequent legislation to provide funding during these uncertain times. The Hospital received a Paycheck Protection Program (PPP) loan in 2021, which was recognized as revenue in 2021, and received several grants from Health and Human Services (HHS) to be used to prevent, prepare for, and respond to the pandemic. In addition, the Hospital also received advance payments from Medicare. Total assets and liabilities increased in 2020 and decreased in 2021 and 2022 as a result of these funding mechanisms.

Our liquidity position when measured by the ratio of current assets to current liabilities was 3.5 in 2022, 2.5 in 2021, and 2.1 in 2020. Current assets decreased by \$11,694,292 in 2022 and \$1,119,840 in 2021. Significant components of current assets are cash and cash equivalents and patient accounts receivable.

**Newman Memorial County Hospital d/b/a Newman Regional Health
Management's Discussion and Analysis - Continued
Years ended December 31, 2022 and 2021**

Cash and cash equivalents totaled \$13.2 million in 2022 and \$26.7 million in 2021. The level of patient accounts receivable is impacted by patient revenues generated during the last two months of the year as well as our efficiency in collecting charges. The number of days net revenue reported in net accounts receivable was 50 days in 2022, 52 days in 2021, and 45 days in 2020.

Total liabilities, excluding the net pension and OPEB liabilities, decreased in 2022 by \$7,258,479 and \$13,019,650 in 2021. The significant items affecting the decreases in 2022 and 2021 are the Hospital meeting the terms and conditions for PPP loan forgiveness and recognizing CARES Act unearned revenues and the Hospital repaying the Medicare advance payments received.

The net pension and OPEB liabilities, deferred outflows, and inflows related to KPERS were \$21,227,789, \$19,817,558, and \$20,514,834 at December 31, 2022, 2021, and 2020, respectively. The changes in these net amounts are actuarially determined by KPERS and will fluctuate based on actuarial assumptions related to investment returns, inflation, mortality rates, and other factors.

Operating results and changes in net position

In 2022, the Hospital's net position decreased by \$4,095,194 or 27 percent as shown in the following table. The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Operating revenues			
Net patient service revenue	\$ 73,941,391	\$ 69,895,170	\$ 65,777,571
Other operating revenue	<u>3,567,660</u>	<u>2,974,120</u>	<u>3,273,973</u>
Total operating revenue	<u>77,509,051</u>	<u>72,869,290</u>	<u>69,051,544</u>
Operating expenses			
Salaries and wages	36,544,041	34,136,223	32,448,541
Employee benefits	10,803,598	7,938,119	10,069,495
Supplies and other expenses	34,090,162	28,243,369	26,881,397
Depreciation and amortization	<u>3,403,464</u>	<u>3,086,384</u>	<u>4,061,223</u>
Total operating expenses	<u>84,841,265</u>	<u>73,404,095</u>	<u>73,460,656</u>
Operating loss	(7,332,214)	(534,805)	(4,409,112)
Interest expense	(613,921)	(630,137)	(657,152)
Property taxes	350,000	300,000	200,000
Other nonoperating revenues (expenses)	2,932,122	12,277,420	5,001,387
Capital grants and contributions	<u>568,819</u>	<u>383,486</u>	<u>79,209</u>
Change in net position	<u>\$ (4,095,194)</u>	<u>\$ 11,795,964</u>	<u>\$ 214,332</u>

**Newman Memorial County Hospital d/b/a Newman Regional Health
Management's Discussion and Analysis - Continued
Years ended December 31, 2022 and 2021**

The first component of the overall change in the Hospital's net position is the operating income - generally, the difference between operating revenues and expenses incurred to perform those services. The Hospital reported an operating loss of \$7,332,214 in 2022, a \$6,797,409 decrease as compared with 2021. There were four noticeable changes between 2022 and 2021 that affected the change in operating loss. The first item affecting the change in operating results was the overall increase in net patient service revenue of \$4,046,221 in 2022, which was due to outpatient volumes normalizing after the pandemic and increased reimbursement from Medicare services reimbursed at cost. In 2021, net patient service revenue increased by \$4,117,599 over the prior year. Other operating revenue in 2022 increased by \$632,097, which was partially related to the Hospital providing IT hosting service to another hospital. Another item affecting the change in operating loss was the \$2,107,507 change in the actuarial adjustments related to pension and other post-employment benefit expenses associated with our participation in the KPERS system. These adjustments totaled \$1,410,231 in 2022, \$(697,276) in 2021, and \$1,311,799 in 2020. The last noticeable change is increase in both employed personnel and contracted labor costs. Salaries and wages expense increased in 2022 by \$2,407,816 after increasing by \$1,687,682 in 2021. Contracted labor costs increased by \$3,023,968 in 2022 after increasing by \$394,417 in 2021.

The operating performance of our Hospital is influenced by utilization, availability of physician services, patient access to health insurance coverage, and third-party reimbursement rates. The Hospital generates approximately 20 percent of gross revenues from inpatient services and 80 percent from outpatient and physician services. The Medicare program, which accounts for 51 percent of the Hospital's net revenues, reimburses inpatient, swing-bed, rural health clinic (RHC), and outpatient services based upon a cost reimbursement methodology. Inpatient rehabilitation, physician other than RHC services, hospice, and DME services are prospectively reimbursed by Medicare.

The Hospital's net patient service revenue increased by 5.8 percent in 2022 as compared to 2021, and increased by 6.2 percent in 2021 as compared to 2020. The change in net revenues is partially due to an increase in outpatient patient volumes which have offset changes in inpatient volumes. Total inpatient days of care (acute, intensive care, swing-bed, rehabilitation, and nursery) were 7,908, 8,233, and 8,147 in 2022, 2021, and 2020, respectively.

The change in operating revenues from year to year is also impacted by the amount of payments received from the State of Kansas Medicaid disproportionate share hospital (DSH) program. During 2022, 2021, and 2020, the Hospital recognized Medicaid DSH revenue of \$1,177,978, \$1,063,974, and \$997,291, respectively. Eligibility for these payments is determined annually based upon numerous factors including uncompensated care cost from providing services to the uninsured and Medicaid beneficiaries as compared with other qualifying hospital providers. These funds are essential to offsetting a portion of the loss from treating uninsured and underinsured patients.

Another factor affecting net patient service revenue is the amount of care provided by the Hospital for which no payment is received or expected to be received. Understanding our role as a community member, the Hospital has a policy to automatically provide a 20 percent discount to all uninsured patients. The percentage of gross charges that are written off due to uninsured discounts, charity care discounts, and bad debts equaled 5.0 percent in 2022. This compares to 5.3 percent in 2021 and 5.5 percent in 2020. Total discounts granted to uninsured or charity care patients equaled \$2,487,699 in 2022 as compared to \$2,681,252 in 2021 and \$2,600,874 in 2020.

Salaries and benefits are significant components of operations. Total salaries and wages increased by 7.1 percent in 2022, 5.2 percent in 2021, and by 2.2 percent in 2020. The change in salaries is driven by the change in FTEs and increased market rate adjustments which were necessary to adjust to the local market. Employee benefits expense excluding the effect of the actuarial adjustment related to the pension plan represented 25.7, 25.3, and 27.0 percent of salary expense. The change in this percentage is largely dependent upon our KPERS funding requirements and the cost of health insurance. Health insurance

**Newman Memorial County Hospital d/b/a Newman Regional Health
Management's Discussion and Analysis - Continued
Years ended December 31, 2022 and 2021**

increased approximately \$380,000 in 2022 and decreased approximately \$295,000 in 2021 as compared to the prior year. Our KPERS cash funding (excluding the pension adjustment) was 8.9 percent, 8.9 percent, and 8.6 percent of covered salary in 2022, 2021, and 2020. As noted above, the effect of the actuarial determined pension and OPEB expense was a \$1,410,231 increase in expense in 2022, \$697,276 decrease in 2021, and a \$1,311,799 increase in 2020. Additional information related to the funding of our pension obligations can be found in the footnotes and supplementary information.

Supplies and other expenses increased by \$5,885,350 or 20.8 percent in 2022 and \$1,361,972 or 5.1 in 2021, as compared to 2020. The increase in 2022 expense is due to continued cost pressures associated with the pandemic which includes the cost of supplies and contract labor needed during peak staffing periods.

Depreciation and amortization expenses increased \$317,080 in 2022, decreased \$974,839 in 2021, and decreased by \$183,587 in 2020. These changes are based on the level of new capital and equipment placed into service by year as compared to the property and equipment which becomes fully depreciated.

Other nonoperating revenue and (expenses) and capital grants and contributions were \$3,237,020 in 2022, \$12,330,769 in 2021, and \$4,623,444 in 2020. The increase in 2021 was due to recognizing a portion of the grants associated with the pandemic funding and the Hospital receiving forgiveness of its PPP loan.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Newman Regional Health.

Independent Auditor's Report

Board of Trustees
Newman Memorial County Hospital

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Hospital as of December 31, 2022 and 2021, and the respective 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Kansas Municipal Audit and Accounting Guide. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note A22 to the financial statements, in 2022 the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87, "Leases." Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 generally accepted auditing

standards, *Government Auditing Standards*, and the Kansas Municipal Audit and Accounting Guide will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5, and the pension and other postretirement information on pages 39 through 41 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2023, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Wendling Noe Nelson & Johnson LLP
Topeka, Kansas
June 26, 2023

Financial Statements

Newman Memorial County Hospital d/b/a Newman Regional Health
Statements of Net Position
December 31, 2022 and 2021

Assets and Deferred Outflows of Resources

	<u>2022</u>	<u>2021</u>
Current assets		
Cash and cash equivalents	\$ 13,180,834	\$ 26,619,278
Assets limited as to use	171,382	262,680
Patient accounts receivable, net of estimated uncollectibles of \$2,317,300 in 2022 and \$2,627,100 in 2021	10,186,757	9,850,157
Other receivables	1,024,377	482,315
Lease receivables	448,805	160,749
Inventories	1,907,582	1,889,211
Prepaid expenses	375,656	485,290
Estimated third-party payor settlements	759,995	
Total current assets	<u>28,055,388</u>	<u>39,749,680</u>
Assets limited as to use		
Under bond indenture agreements - held by trustee	1,541,083	1,471,104
Under financing agreement - held in escrow	63,699	
Total assets limited as to use	<u>1,604,782</u>	<u>1,471,104</u>
Capital assets		
Capital assets not being depreciated	1,745,175	1,346,026
Depreciable capital assets, net of accumulated depreciation	26,211,715	24,708,245
Leased assets, net of accumulated amortization	1,060,592	1,238,518
Total capital assets	<u>29,017,482</u>	<u>27,292,789</u>
Other assets		
Lease receivables, less current portion	2,589,678	1,442,433
Other receivables	366,316	177,475
Prepaid bond insurance	59,520	67,826
Total other assets	<u>3,015,514</u>	<u>1,687,734</u>
Total assets	<u>61,693,166</u>	<u>70,201,307</u>
Deferred outflows of resources		
Pension and other postemployment benefits	10,823,254	6,376,031
Total assets and deferred outflows of resources	<u>\$ 72,516,420</u>	<u>\$ 76,577,338</u>

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2022</u>	<u>2021</u>
Current liabilities		
Current maturities of long-term debt	\$ 1,444,437	\$ 888,753
Current maturities of lease liabilities	230,452	202,446
Accounts payable and accrued expenses	2,015,891	2,294,175
Accrued salaries, vacation, benefits, and payroll taxes	4,208,161	4,073,758
Other current liabilities	161,821	115,883
Estimated third-party payor settlements		1,100,000
Unearned CARES Act revenue		1,081,527
Medicare accelerated payments		6,053,377
Total current liabilities	<u>8,060,762</u>	<u>15,809,919</u>
Noncurrent liabilities		
Long-term debt, less current maturities	17,336,302	16,654,398
Lease liabilities, less current maturities	833,205	1,024,431
Other postemployment liability	535,541	803,393
Net pension liability	<u>30,751,865</u>	<u>18,214,327</u>
Total noncurrent liabilities	<u>49,456,913</u>	<u>36,696,549</u>
Total liabilities	<u>57,517,675</u>	<u>52,506,468</u>
Deferred inflows of resources		
Pension and other postemployment benefits	763,637	7,175,869
Lease receivables	<u>3,038,483</u>	<u>1,603,182</u>
Total deferred inflows of resources	<u>3,802,120</u>	<u>8,779,051</u>
Net position		
Net investment in capital assets	9,395,739	8,823,297
Restricted		
For debt service	1,712,465	1,733,784
For capital purchases	216,675	213,792
For specific operating activities	35,197	14,895
Unrestricted	<u>(163,451)</u>	<u>4,506,051</u>
Total net position	<u>11,196,625</u>	<u>15,291,819</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 72,516,420</u>	<u>\$ 76,577,338</u>

**Newman Memorial County Hospital d/b/a Newman Regional Health
Statements of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Operating revenues		
Net patient service revenue	\$ 73,941,391	\$ 69,895,170
Other	<u>3,567,660</u>	<u>2,974,120</u>
Total operating revenues	<u>77,509,051</u>	<u>72,869,290</u>
Operating expenses		
Salaries and wages	36,544,041	34,136,223
Employee benefits	9,393,367	8,635,395
Actuarial adjustments for pension and OPEB expenses	1,410,231	(697,276)
Supplies and other expenses	34,090,162	28,243,369
Depreciation and amortization	<u>3,403,464</u>	<u>3,086,384</u>
Total operating expenses	<u>84,841,265</u>	<u>73,404,095</u>
Operating loss	<u>(7,332,214)</u>	<u>(534,805)</u>
Nonoperating revenues (expenses)		
Investment income	921,195	559,682
Interest expense	(613,921)	(630,137)
Noncapital grants and contributions	964,316	6,265,763
COVID-19 noncapital grants	1,124,787	5,451,802
Property taxes	350,000	300,000
Other	<u>(78,176)</u>	<u>173</u>
Total nonoperating revenues (expenses)	<u>2,668,201</u>	<u>11,947,283</u>
Excess of revenues over (under) expenses before capital grants and contributions	<u>(4,664,013)</u>	<u>11,412,478</u>
Capital grants and contributions	<u>568,819</u>	<u>383,486</u>
Change in net position	<u>(4,095,194)</u>	<u>11,795,964</u>
Net position at beginning of year		
As previously reported	15,369,871	3,557,999
Prior period adjustment for change in accounting principle	<u>(78,052)</u>	<u>(62,144)</u>
As restated	<u>15,291,819</u>	<u>3,495,855</u>
Net position, end of year	<u>\$ 11,196,625</u>	<u>\$ 15,291,819</u>

The accompanying notes are an integral part of these statements.

Newman Memorial County Hospital d/b/a Newman Regional Health
Statements of Cash Flows
Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 65,676,419	\$ 66,418,549
Payments to or on behalf of employees	(46,062,005)	(42,541,099)
Payments to suppliers	(34,248,562)	(27,293,596)
Other receipts and payments	<u>3,225,391</u>	<u>2,992,203</u>
Net cash used by operating activities	<u>(11,408,757)</u>	<u>(423,943)</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	964,316	157,063
Property taxes	425,000	225,000
COVID-19 relief payments received	43,260	2,706,062
Interest paid on non-capital related debt	(12,041)	(15,861)
Principal payments on long-term debt	(63,530)	(66,008)
Other	<u>173</u>	<u>173</u>
Net cash provided by noncapital financing activities	<u>1,357,005</u>	<u>3,006,429</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(5,291,602)	(2,322,621)
Grants and contributions for capital	527,372	383,486
Proceeds from incurrence of long-term debt	2,700,000	
Interest paid on lease liabilities	(42,111)	(47,705)
Principal paid for lease liabilities	(221,453)	(194,746)
Interest paid on long-term debt	(684,630)	(672,108)
Principal payments on long-term debt	<u>(1,267,777)</u>	<u>(922,118)</u>
Net cash used by capital and related financing activities	<u>(4,280,201)</u>	<u>(3,775,812)</u>
Cash flows from investing activities		
Change in assets held under bond indenture agreement	(38,932)	543,891
Other investing activities, net	14,694	
Interest received	<u>917,747</u>	<u>556,627</u>
Net cash provided by investing activities	<u>893,509</u>	<u>1,100,518</u>
Change in cash and cash equivalents	(13,438,444)	(92,808)
Cash and cash equivalents at beginning of year	<u>26,619,278</u>	<u>26,712,086</u>
Cash and cash equivalents at end of year	<u>\$ 13,180,834</u>	<u>\$ 26,619,278</u>

The accompanying notes are an integral part of these statements.

Newman Memorial County Hospital d/b/a Newman Regional Health
Statements of Cash Flows - Continued
Years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	\$ (7,332,214)	\$ (534,805)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization	3,403,464	3,086,384
Provision for bad debts	4,385,582	4,483,310
Changes in		
Patient accounts receivable	(4,722,182)	(6,250,707)
Inventories	(18,371)	182,077
Prepaid expenses	109,634	289,524
Other receivables	(664,269)	64,083
Accounts payable and accrued expenses	(67,260)	636,691
Estimated third-party payor settlements	(1,859,995)	2,880,000
Medicare accelerated payments	(6,053,377)	(4,563,224)
Net pension and OBEB liability, deferred inflows, and deferred outflows related to pension and OPEB liabilities	<u>1,410,231</u>	<u>(697,276)</u>
Net cash used by operating activities	<u>\$ (11,408,757)</u>	<u>\$ (423,943)</u>
Supplemental schedule of noncash investing and financing activities		
Noncash right-of-use obligations incurred	\$ 58,233	\$ -
Donated capital asset	41,447	-

The accompanying notes are an integral part of these statements.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements
December 31, 2022 and 2021

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

1. Reporting entity

Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital) is owned by Lyon County (the County), Kansas, and operated by the Board of Trustees, a nine-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1919, is a not-for-profit general hospital located in Emporia, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of Lyon County.

2. Use of estimates

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

3. Basis of accounting

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

4. Cash and cash equivalents

Cash and cash equivalents include all cash and highly-liquid debt instruments with maturities of three months or less excluding any such amounts included in assets limited as to use under bond indenture agreements and held by trustee.

5. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable by type of payor.

6. Inventories

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

7. Investments and investment income

Investments in debt and equity securities with readily determinable fair values are measured at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments are recognized as investment income when earned.

8. Assets limited as to use

Assets limited as to use include assets held by a trustee under bond indenture agreements and an escrow account related to a debt financing agreement.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

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

9. Capital assets

Capital assets are stated at historical cost. Donated capital assets are recorded at acquisition value at the date of donation with acquisition value being determined as the cost to acquire an equivalent asset on the date of the donation. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

Leased assets are recognized at the lease commencement date and represent the Hospital's right to use an underlying asset for the lease term. Leased assets are measured at the initial value of the lease liability at the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus any initial direct costs necessary to place the lease asset into service. Leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method or the same method amortizing the debt.

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.

10. Lease receivables

Lease receivables are recorded by the Hospital as the present value of future lease payments expected to be received from the lessee during the lease term, reduced by any provision for estimated uncollectible amounts. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The present value of future payments to be received are discounted based on the interest rate determined at the time of the lease.

11. Accrued vacation and other employee benefits

Employees are entitled to paid vacation depending on length of service and whether they are full-time or part-time. Upon retirement, resignation, or termination from service, employees are entitled to payment for all accrued vacation, up to an allowable maximum. Vacation benefits are accrued as earned.

12. Accrued health insurance claims

The Hospital is partially self-insured for health insurance claims of its employees (Note M). Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. The estimate is based on known claims and historical claims experience. Although management believes the estimate for accrued health insurance claims is reasonable, it is possible that actual incurred claims expense may vary significantly from the estimate recorded.

13. Deferred outflows and inflows of resources

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

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

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

14. Pension and Other Post Employee Benefit (OPEB) plans

The Hospital participates in the Kansas Public Employees Retirement System Plan (KPERS), a cost-sharing multiple-employer defined benefit pension plan. The Hospital also provides long-term disability benefits to its employees through KPERS. The Hospital utilizes information provided by KPERS to measure the net pension and OPEB liability, deferred outflows, and deferred inflows of resources related to the benefits provided through the KPERS plan.

15. Net position

The net position of the Hospital is classified into three components. "Net investment in capital assets" consists of net capital assets reduced by the current balances of outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. "Unrestricted net position" is remaining net position that does not meet the definition of "net investment in capital assets" or "restricted."

16. 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.

17. Grants and contributions

From time to time, the Hospital will receive 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.

18. Property taxes

The County allocates a portion of the property tax receipts to support Hospital operations. The taxes are levied in November of each year with the Hospital receiving funds on a quarterly basis from the County. The property tax revenue is recognized in full the year following the year the taxes were levied which is the year in which use is first permitted.

19. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

20. 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.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

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

21. Reclassifications

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 presentation. The reclassifications had no effect on the changes in financial position.

22. Adoption of accounting pronouncements

As of January 1, 2021, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 87, "Leases," which establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the payment provisions of the contract. The standard also requires lessors to recognize a lease receivable and deferred inflow of resources. The effect of the implementation of this standard on beginning net position was \$62,144 applicable to 2020 and prior years and has been included in the restated 2021 beginning net position. See Note V for additional disclosure of the effect of implementing this standard.

23. Subsequent events

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

Note B - 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 statement 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 - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for inpatient acute care, skilled swing-bed, rural health clinic (RHC), and certain outpatient services under various cost reimbursement methodologies. Inpatient rehab, hospice, and physician services, other than RHC services, are prospectively reimbursed based on prospectively determined rates. The Hospital is paid for cost reimbursable items at a tentative rate 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 administrative contractor through December 31, 2018.

Medicaid - Inpatient and outpatient 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. The Hospital receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. RHC services rendered to Medicaid beneficiaries are paid at a prospectively determined rate per occasion of service. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment.

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.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note B - Net Patient Service Revenue - Continued

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

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

	<u>2022</u>	<u>2021</u>
Gross patient service revenue	\$138,273,118	\$135,830,851
Deductions from patient service revenue		
Third-party contractual adjustments	(58,549,234)	(59,771,966)
Medicaid DSH payments	1,177,978	1,063,974
Provision for bad debts	(4,385,582)	(4,483,310)
Charity care	(1,161,960)	(1,518,854)
Uninsured discounts	(1,325,739)	(1,162,398)
Other discounts and allowances	<u>(87,190)</u>	<u>(63,127)</u>
Net patient service revenue	<u>\$ 73,941,391</u>	<u>\$ 69,895,170</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 51 percent and 9 percent, respectively, of the Hospital's net patient revenue during 2022, and 49 percent and 8 percent, respectively, of the Hospital's net patient revenue during 2021. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation.

The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from its Medicare cost reports, was \$656,000 and \$783,000 for 2022 and 2021, respectively.

Note C - Assets Limited as to Use

Under bond indenture agreements - held by trustee

Assets limited as to use by bond indenture agreements are held by a trustee and are stated at fair value. These assets are related to the revenue bond issue and consist of the following:

	<u>2022</u>	<u>2021</u>
Principal and interest sinking fund	\$ 171,382	\$ 262,642
Interest receivable	4,154	5,974
Bond reserve fund	<u>1,536,929</u>	<u>1,465,168</u>
	<u>\$ 1,712,465</u>	<u>\$ 1,733,784</u>

Assets are invested by the trustee as follows:

	<u>2022</u>	<u>2021</u>
Cash	\$ 814,047	\$ 838
Money Market Treasury fund	51,753	711
U.S. Government and Agency obligations at fair value	842,511	1,726,261
Interest receivable	<u>4,154</u>	<u>5,974</u>
	<u>\$ 1,712,465</u>	<u>\$ 1,733,784</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note C - Assets Limited as to Use - Continued

The bond reserve funds are available for bond principal and interest payments to prevent any default in the payment of principal or interest of the respective bonds or, if not so required, may be used to make the final payments of bond principal and interest.

Note D - Lease Receivables

The Hospital leases a portion of its medical office building to other health care providers. The Hospital uses its incremental borrowing rate at the time of lease inception to discount lease payments. The lease agreements include renewal options and the Hospital has assessed these renewal options to determine the likelihood of the options being exercised. All renewal options that the Hospital believes are reasonably certain to be exercised are included in the lease term. At December 31, 2022 and 2021, the Hospital has recognized leased receivables and deferred inflows of resources of \$3,038,483 and \$1,603,182, respectively.

Income from these leases consisted of the following:

	<u>2022</u>	<u>2021</u>
Rent	\$ 443,647	\$ 458,320
Investment income (included in other operating revenue)	<u>95,904</u>	<u>77,392</u>
	<u>\$ 539,551</u>	<u>\$ 535,712</u>

Future minimum lease payments receivable under the lease agreements are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 448,805	\$ 93,439	\$ 542,244
2024	457,500	81,717	539,217
2025	481,429	69,629	551,058
2026	506,320	56,933	563,253
2027	147,342	46,834	194,176
2028 - 2032	424,525	179,167	603,692
2033 - 2037	<u>572,562</u>	<u>67,896</u>	<u>640,458</u>
	<u>\$ 3,038,483</u>	<u>\$ 595,615</u>	<u>\$ 3,634,098</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note E - Capital Assets

	Balance December 31, <u>2021</u>	Transfers and <u>additions</u>	<u>Retirements</u>	Balance December 31, <u>2022</u>
Capital assets not being depreciated				
Land	\$ 1,308,632	\$ -	\$ -	\$ 1,308,632
Projects in progress	37,394	399,149		436,543
	<u>1,346,026</u>	<u>399,149</u>	<u>-</u>	<u>1,745,175</u>
Total capital assets not being depreciated				
Capital assets being depreciated				
Land improvements	869,285			869,285
Buildings and fixed equipment	73,387,097	774,477	584,888	73,576,686
Future expansion and rental property	1,096,506			1,096,506
Leasehold improvements	293,627			293,627
Major movable equipment	21,034,826	3,977,355	43,970	24,968,211
Intangibles	13,857			13,857
	<u>96,695,198</u>	<u>4,751,832</u>	<u>628,858</u>	<u>100,818,172</u>
Total capital assets being depreciated				
Less accumulated depreciation for				
Land improvements	650,305	23,368		673,673
Buildings and fixed equipment	53,129,888	1,859,786	503,820	54,485,854
Future expansion and rental property	140,213	30,767		170,980
Leasehold improvements	130,724	28,281		159,005
Major movable equipment	17,922,180	1,224,916	43,970	19,103,126
Intangibles	13,643	176		13,819
	<u>71,986,953</u>	<u>3,167,294</u>	<u>547,790</u>	<u>74,606,457</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>24,708,245</u>	<u>1,584,538</u>	<u>81,068</u>	<u>26,211,715</u>
Leased assets being amortized				
Buildings	728,001			728,001
Major movable equipment	901,742	58,233		959,975
	<u>1,629,743</u>	<u>58,233</u>	<u>-</u>	<u>1,687,976</u>
Total leased assets being depreciated				
Less accumulated amortization				
Buildings	175,934	36,400		212,334
Major movable equipment	215,291	199,759		415,050
	<u>391,225</u>	<u>236,159</u>	<u>-</u>	<u>627,384</u>
Total accumulated amortization				
Total leased assets being amortized	<u>1,238,518</u>	<u>(177,926)</u>	<u>-</u>	<u>1,060,592</u>
Capital assets, net	<u>\$ 27,292,789</u>	<u>\$ 1,805,761</u>	<u>\$ 81,068</u>	<u>\$ 29,017,482</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note E - Capital Assets - Continued

	Balance December 31, <u>2020</u>	Transfers and additions	Retirements	Balance December 31, <u>2021</u>
Capital assets not being depreciated				
Land	\$ 1,293,632	\$ 15,000	\$ -	\$ 1,308,632
Projects in progress	<u>128,194</u>	<u>(90,800)</u>		<u>37,394</u>
Total capital assets not being depreciated	<u>1,421,826</u>	<u>(75,800)</u>	<u>-</u>	<u>1,346,026</u>
Capital assets being depreciated				
Land improvements	869,285	\$ -	\$ -	869,285
Buildings and fixed equipment	72,195,083	1,192,014		73,387,097
Future expansion and rental property	991,506	105,000		1,096,506
Leasehold improvements	402,738		109,111	293,627
Major movable equipment	20,576,979	1,286,356	828,509	21,034,826
Intangibles	<u>13,857</u>			<u>13,857</u>
Total capital assets being depreciated	<u>95,049,448</u>	<u>2,583,370</u>	<u>937,620</u>	<u>96,695,198</u>
Less accumulated depreciation				
Land improvements	615,286	35,019		650,305
Buildings and fixed equipment	51,163,231	1,966,657		53,129,888
Future expansion and rental property	110,144	30,069		140,213
Leasehold improvements	202,018	37,816	109,110	130,724
Major movable equipment	17,952,824	797,866	828,510	17,922,180
Intangibles	<u>11,434</u>	<u>2,209</u>		<u>13,643</u>
Total accumulated depreciation	<u>70,054,937</u>	<u>2,869,636</u>	<u>937,620</u>	<u>71,986,953</u>
Total capital assets being depreciated, net	<u>24,994,511</u>	<u>(286,266)</u>	<u>-</u>	<u>24,708,245</u>
Leased assets being amortized				
Buildings	728,001			728,001
Major movable equipment	<u>901,742</u>			<u>901,742</u>
Total leased assets being depreciated	<u>1,629,743</u>	<u>-</u>	<u>-</u>	<u>1,629,743</u>
Less accumulated amortization				
Buildings	139,534	36,400		175,934
Major movable equipment	<u>34,943</u>	<u>180,348</u>		<u>215,291</u>
Total accumulated amortization	<u>174,477</u>	<u>216,748</u>	<u>-</u>	<u>391,225</u>
Total leased assets being amortized	<u>1,455,266</u>	<u>(216,748)</u>	<u>-</u>	<u>1,238,518</u>
Capital assets, net	<u>\$ 27,871,603</u>	<u>\$ (578,814)</u>	<u>\$ -</u>	<u>\$ 27,292,789</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note F - Long-Term Debt

Long-term debt consists of the following:

	<u>2022</u>	<u>2021</u>
Lyon County, Kansas Public Building Commission, Newman Memorial County Hospital Refunding Revenue Bonds, Series 2016-A, issued October 31, 2016, in the original amount of \$19,970,000, 3.00% to 5.00% bonds due serially through December 1, 2036	\$ 15,425,000	\$ 16,250,000
Net unamortized premium on bonds	939,562	1,070,668
2.20% debt obligation to bank entered into April 8, 2022, in the original amount of \$2,700,000, payable in equal monthly installments of \$47,601, including interest through February 2027, collateralized by robotics equipment	2,257,223	
5.55% debt obligation to equipment vendor entered into March 1, 2020, in the original amount of \$329,200, payable in equal monthly installments of \$6,298, including interest through March 1, 2025, uncollateralized	<u>158,954</u>	<u>222,483</u>
	18,780,739	17,543,151
Less current maturities of long-term debt	<u>(1,444,437)</u>	<u>(888,753)</u>
Long-term debt, net of current maturities	<u>\$ 17,336,302</u>	<u>\$ 16,654,398</u>

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

	Hospital revenue bonds	Other debt obligations	Total
Outstanding at January 1, 2021	\$ 17,050,000	\$ 288,491	\$ 17,338,491
Principal payments	<u>(800,000)</u>	<u>(66,008)</u>	<u>(866,008)</u>
Outstanding at December 31, 2021	16,250,000	222,483	16,472,483
Issuance of long-term debt		2,700,000	2,700,000
Principal payments	<u>(825,000)</u>	<u>(506,306)</u>	<u>(1,331,306)</u>
Outstanding at December 31, 2022	<u>\$ 15,425,000</u>	<u>\$ 2,416,177</u>	<u>\$ 17,841,177</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note F - Long-Term Debt - Continued

Annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 1,444,437	\$ 674,250	\$ 2,118,687
2024	1,485,427	632,650	2,118,077
2025	1,479,975	582,197	2,062,172
2026	1,512,767	532,766	2,045,533
2027	1,063,571	487,149	1,550,720
2028 - 2032	5,565,000	1,799,400	7,364,400
2033 - 2036	<u>5,290,000</u>	<u>595,750</u>	<u>5,885,750</u>
	<u>\$ 17,841,177</u>	<u>\$ 5,304,162</u>	<u>\$ 23,145,339</u>

On October 31, 2016, the Lyon County Public Building Commission (PBC) issued \$19,970,000 in Revenue Bonds, Series 2016-A, on behalf of the Hospital. The proceeds of these bonds were used to advance refund \$7,795,000 of the Series 2010-A bonds and fund an emergency room renovation and expansion. As a part of this transaction, the Hospital recognized a deferred refunding loss which is reported as a deferred outflow. The refunding loss was systematically amortized over the period 2016 to 2021, the remaining term of the 2010-A bonds as of the date of the refunding. The proceeds from this issue were (1) used to advance refund the Series 2010-A bonds on December 1, 2018, and (2) pay certain costs related to the issuance of the 2016-A bonds, and (3) fund certain renovations to the Hospital facility.

The PBC is a municipal corporation created by the County to issue the bonds. In connection with the issuance of the bonds, the PBC, the County, and the Hospital entered into a lease agreement in which the PBC leased the Project to the County and the Hospital for rental payments sufficient to provide for the payment of principal and interest on the bonds. The lease contains a covenant by the County to make all rental payments required under the lease from whatever sources of revenues are legally available and to levy ad valorem taxes without limit if necessary to make payments.

In connection with the issuance of the bonds, the Hospital and the County entered into a pledge of revenues and operating agreement. Under the agreement, the Hospital pledged its net revenues to the County to secure the payment of principal and interest on the bonds. The pledge of revenues agreement requires the Hospital to set aside certain amounts monthly sufficient to pay principal and interest on the bonds as payments are due. The agreement also contains certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, maintenance of reserve funds, days cash on hand, and debt service coverage ratio. The Hospital did not meet the debt service coverage requirement in 2022. The agreement specifies certain actions to be taken by the Hospital when this occurs.

**Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021**

Note G - Lease Liabilities

Lease liabilities are summarized as follows:

	<u>2022</u>	<u>2021</u>
Right-of-use lease liability; implied interest rate of 3.74%; payable in monthly installments of \$223 through March 1, 2024	\$ 3,041	\$ 5,545
Right-of-use lease liability; stated interest rate of 3.65%; payable in monthly installments of \$16,403 through March 15, 2025	412,994	591,213
Right-of-use lease liability; implied interest rate of 3.25%; payable by making certain established supply order thresholds; implied monthly installments of \$1,700 through January 1, 2025	39,449	
Right-of-use lease liability; implied interest rate of 3.50%; payable in monthly installments ranging \$3,578 to \$5,405 through March 1, 2036	<u>608,173</u>	<u>630,119</u>
	1,063,657	1,226,877
Less current maturities of right-of-use liabilities	<u>(230,452)</u>	<u>(202,446)</u>
Right-of-use liabilities, net of current maturities	<u>\$ 833,205</u>	<u>\$ 1,024,431</u>

The following is a summary of changes in right-of-use lease liabilities:

	<u>Right-of-use lease liabilities</u>
Outstanding at January 1, 2021	\$ 1,421,623
Principal payments	<u>(194,746)</u>
Outstanding at December 31, 2021	1,226,877
Additions	58,233
Principal payments	<u>(221,453)</u>
Outstanding at December 31, 2022	<u>\$ 1,063,657</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note G - Lease Liabilities - Continued

Scheduled lease liability payments for the year ending December 31, 2022 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 230,452	\$ 33,987	\$ 264,439
2024	237,539	25,558	263,097
2025	63,649	19,325	82,974
2026	29,092	18,159	47,251
2027	36,083	17,044	53,127
2028 - 2032	223,712	63,429	287,141
2033 - 2037	<u>243,130</u>	<u>18,767</u>	<u>261,897</u>
	<u>\$ 1,063,657</u>	<u>\$ 196,269</u>	<u>\$ 1,259,926</u>

Rental expense for all leases consisted of the following:

	<u>2022</u>	<u>2021</u>
Amortization of leased assets	\$ 221,453	\$ 194,746
Interest on leased liabilities	42,111	47,705
Short-term leases	<u>282,934</u>	<u>292,108</u>
	<u>\$ 546,498</u>	<u>\$ 534,559</u>

Note H - SBA PPP Loan Payable

On May 1, 2020, the Hospital was granted a \$6,108,700 loan under the Paycheck Protection Program (PPP) administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and fully guaranteed by the Federal government. The Hospital received loan forgiveness of the entire loan amount plus accrued loan interest of \$81,789 on August 30, 2021, and has included this forgiveness as noncapital grants and contributions in 2021.

Note I - Unearned CARES Act Revenue

Unearned revenue consists of federal financial assistance through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, and subsequent legislation. The Hospital received the United States Department of Health and Human Services (HHS) provider relief funds to be used to prevent, prepare for, and respond to coronavirus and to reimburse the Hospital for health care related expenses and lost revenues as defined by HHS that are attributable to coronavirus (COVID-19). The Hospital also received rural health clinic testing funds to be used to support coronavirus testing and related expenses in the rural health clinics and SPARK (Strengthening People and Revitalizing Kansas) grants from Lyon County, Kansas and the state of Kansas to respond to coronavirus. As a condition to receiving these distributions, the Hospital must agree to the terms and conditions of the funds. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as unearned revenues until such time the eligibility requirements have been met.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note I - Unearned CARES Act Revenue - Continued

The Hospital has determined that the conditions have been met to recognize \$1,338,893 and \$5,451,802 of HHS provider relief funds, rural health clinic testing, and SPARK funds for the years ended December 31, 2022 and 2021. These amounts are classified in the financial statements as COVID-19 grant revenue or capital grants and contributions during the years ended December 31, 2022 and 2021. The terms and conditions of these programs are complex and subject to interpretation and evolving guidance. As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term.

Note J - Medicare Accelerated Payments

The Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, provided for a temporary expansion of Medicare's ability to provide accelerated advance payments due to claim disruption or unusual operating circumstances. In April 2020, the Hospital requested and received advances under this program in response to the coronavirus pandemic totaling \$10,616,601. Medicare recouped these payments by offsetting future claim and settlement payments due to the Hospital for services rendered to Medicare beneficiaries.

Note K - Defined Benefit Pension Plan

Plan description

The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Substantially all employees of the Hospital are eligible to participate in KPERS. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits.

Kansas law establishes and amends benefit provisions. Substantially all public employees in Kansas are covered by KPERS. Participation by local political subdivisions and entities is optional, but irrevocable once elected. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Topeka, Kansas 66603-3869) or by calling 1-888-275-5737.

Benefits

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

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

Members may choose one of seven payment options for their monthly retirement benefits. At retirement, a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note K - Defined Benefit Pension Plan - Continued

passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions

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

KPERS has three benefit structures and funding depending on whether the employee is a Tier 1, Tier 2, or Tier 3 member. Tier 1 members were hired before July 1, 2009, Tier 2 members were first employed on or after July 1, 2009, and Tier 3 members were first employed on or after January 1, 2015. Kansas law establishes the KPERS member-employee contribution rate at 6 percent of covered salary for all members for 2022 and 2021, respectively. The employer rates established by statute at December 31, 2022 and 2021, are 8.90 percent and 8.87 percent, respectively.

The Hospital employer contributions to KPERS for the years ended December 31, 2022 and 2021, were \$2,897,685 and \$2,680,872, respectively, equal to the statutory required contributions for each year.

Employer and Nonemployer Allocations

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

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

To facilitate the separate (sub) actuarial valuations, the System maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The Hospital is included in the local group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The allocation percentages for the Hospital's share of the collective pension amounts as of December 31, 2022 and 2021, are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group for the years ended June 30, 2022 and 2021, respectively. The contributions used exclude contributions made for prior service, excess benefits, and irregular payments. As of December 31, 2022, the Hospital's proportion was 1.547 percent which was an increase of .029 percent from its share at December 31, 2021.

Net pension liability

At December 31, 2022 and 2021, the Hospital reported a liability of \$30,751,865 and \$18,214,327, respectively, for its proportionate share of the net pension liability.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note K - Defined Benefit Pension Plan - Continued

Actuarial Assumptions

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

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2021, are summarized in the following table:

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

Discount Rate

The discount rates used to measure the total pension liability at the measurement date for 2022 and 2021 were 7.00 percent and 7.25 percent, respectfully. The actuarial assumptions used in the calculation of the total pension liability were based on the results of the most recent actuarial experience study.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note K - Defined Benefit Pension Plan - Continued

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of the pension plan as of June 30, 2022, calculated using the discount rate of 7.00 percent, as well as what the pension plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

	1% Decrease <u>(6.00%)</u>	Current discount rate <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
Hospital's share of net pension liability	\$ 44,176,048	\$ 30,751,865	\$ 19,567,570

Pension Expense

For the years ended December 31, 2022 and 2021, the Hospital recognized pension expense of \$4,310,083 and \$1,978,390, respectively, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Deferred Outflows of Resources and Deferred Inflows of Resources

A summary of the collective deferred outflows of resources and deferred inflows of resources at December 31, 2022 and 2021, are included in the tables below. Experience gains/losses and the impact of changes in actuarial assumptions or other inputs, if any, are recognized over the average expected remaining service life of the active and inactive plan members at the beginning of the measurement period. Investment gains and losses are recognized over a fixed five-year period.

	<u>2022</u>	<u>2021</u>
Deferred outflows of resources		
Differences between expected and actual experience	\$ 1,163,162	\$ 718,961
Changes of assumptions	4,915,508	3,585,512
Net difference between projected and actual earnings on pension plan investments	2,603,145	
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	650,813	675,547
Employer contributions subsequent to the measurement date	<u>1,409,207</u>	<u>1,301,797</u>
Total deferred outflows of resources	<u>\$ 10,741,835</u>	<u>\$ 6,281,817</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note K - Defined Benefit Pension Plan - Continued

	<u>2022</u>	<u>2021</u>
Deferred inflows of resources		
Differences between expected and actual experience	\$ 55,121	\$ 164,923
Net difference between projected and actual earnings on pension plan investments		6,467,857
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	<u>180,726</u>	<u>268,189</u>
Total deferred inflows of resources	<u>\$ 235,847</u>	<u>\$ 6,900,969</u>

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2022, that will be recognized in pension expense in future years:

<u>Year ended December 31,</u>	<u>Employer contributions subsequent to the measurement date</u>	<u>Recognition of net deferred outflows/(inflows) of resources by year</u>	<u>Total</u>
2023	\$ 1,409,207	\$ 2,511,054	\$ 3,920,261
2024		2,323,997	2,323,997
2025		1,268,452	1,268,452
2026		2,875,940	2,875,940
2027		<u>117,338</u>	<u>117,338</u>
	<u>\$ 1,409,207</u>	<u>\$ 9,096,781</u>	<u>\$ 10,505,988</u>

Note L - Other Postemployment Benefit Plan

Plan description and benefits provided

The Kansas Public Employees Retirement System (KPERS) sponsors a long-term disability program for participating employers (the Plan). Participating employers pay the cost of the long-term disability and life insurance coverage for their members as provided by K.S.A. 74-04927. The Hospital is considered to be participating in a single employer long-term disability plan. The Plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. However, because the trust's assets are used to pay employee benefits other than postemployment benefits (OPEB), the trust does not meet the criteria in paragraph 4 of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Accordingly, the Plan is considered to be administered on a pay-as-you-go basis.

Benefits are established by statute and may be amended by the KPERS Board of Trustees. The Plan provides long-term disability benefits equal to 60 percent (prior to January 1, 2006, 66 2/3 percent) of annual compensation, offset by other benefits. Members receiving long-term disability benefits also receive credit towards their KPERS retirement benefits and have their group life insurance coverage continued under the waiver of premium provision.

**Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021**

Note L - Other Postemployment Benefit Plan - Continued

The monthly long-term disability benefit is 60 percent of the member's monthly compensation, with a minimum of \$100 and a maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which includes Social Security primary disability or retirement benefits, workers compensation benefits, other disability benefits from other sources by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while the disability continues until the member's 65th birthday or retirement date, whichever occurs first. If the disability begins after age 60, benefits are payable while the disability continues, for a period of five years or until the member retires, whichever occurs first. Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically based mental illnesses are limited to the shorter of the term of the disability or 24 months per lifetime. There are no automatic cost-of-living increase provisions. KPERS has the authority to implement an ad hoc cost-of-living increase.

The death benefit paid to beneficiaries of disabled members is 150 percent of the greater of 1) the member's annual rate of compensation at the time of disability, or 2) the member's previous 12 months of compensation at the time of the past date on payroll. If the member has been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed using the consumer price index, less one percentage point, to compute the death benefit. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, the member may be eligible to receive up to 100 percent of the death benefit rather than having the benefit paid to the beneficiary. If a member retires or disability benefits end, the member may convert the group life insurance coverage to an individual insurance policy.

Covered employees

The Hospital has the following employees covered by the Plan as of December 31:

	<u>2021</u>	<u>2020</u>
Inactive employees or beneficiaries currently receiving benefit payments	8	8
Active employees	<u>447</u>	<u>458</u>
 Total	 <u>455</u>	 <u>466</u>

Total OPEB liability

At December 31, 2022 and 2021, the Hospital reported a total OPEB liability of \$535,541 and \$803,393, respectively.

Actuarial assumptions

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

<u>Actuarial assumptions</u>	<u>2021</u>	<u>2020</u>
Price inflation	2.75%	2.75%
Wage inflation	3.00%	3.00%
Salary increases, including wage increases	3.50% - 10.00%	3.50% - 10.00%
Discount rate	3.54%	2.16%

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note L - Other Postemployment Benefit Plan - Continued

In 2021 and 2020, mortality rates used for the death benefits were based on the RP-2014 Mortality Tables. Future mortality improvements were projected using Scales MP-2021 and MP-2020 in 2021 and 2020, respectively. Mortality rates used for disability benefits were included in long-term disability claim termination rates.

The actuarial assumptions used in the December 31, 2021 and 2020 valuations were based on the results of the latest actuarial experience study conducted.

Changes in the total OPEB liability

	June 30, <u>2022</u>	June 30, <u>2021</u>
Liability at beginning of period	\$ 803,393	\$ 794,040
Changes for the year		
Service cost	113,713	107,603
Interest	19,022	18,994
Changes of economic/demographic gains or losses	(209,670)	(33,434)
Changes in assumptions or other inputs	(117,615)	985
Benefit payments	<u>(73,302)</u>	<u>(84,795)</u>
Net change in liability	<u>(267,852)</u>	<u>9,353</u>
Liability at end of period	<u>\$ 535,541</u>	<u>\$ 803,393</u>

Sensitivity of the OPEB liability to changes in the discount rate

The following table presents the total OPEB liability as of June 30, 2022, calculated using the discount rate of 3.54 percent, as well as what the OPEB's liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.54 percent) or 1-percentage-point higher (4.54 percent) than the current rate:

	1% decrease <u>(2.54%)</u>	Current discount rate <u>(3.54%)</u>	1% increase <u>(4.54%)</u>
Total OPEB liability	\$ 553,153	\$ 535,541	\$ 516,901

OPEB expense

For the years ended December 31, 2022 and 2021, the Hospital recognized OPEB expense of \$65,388 and \$91,783, respectively, which includes the changes in the total OPEB liability and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note L - Other Postemployment Benefit Plan - Continued

Deferred outflows and resources and deferred inflows of resources

A summary of the collective deferred outflows of resources and deferred inflows of resources related to the OPEB plan at December 31, 2022 and 2021, are included in the tables below.

	<u>2022</u>	<u>2021</u>
Deferred outflows of resources		
Differences between actual and expected experience	\$ 13,126	\$ 15,417
Changes in assumptions	31,642	36,399
Benefit payments subsequent to the measurement date	36,651	42,398
Total deferred outflows of resources	\$ 81,419	\$ 94,214
Deferred inflows of resources		
Differences between expected and actual experience	\$ 407,791	\$ 257,230
Changes of assumptions	119,999	17,670
Total deferred inflows of resources	\$ 527,790	\$ 274,900

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2022, that will be recognized in OPEB expense in future years:

<u>Year ended</u> <u>December 31,</u>	<u>Benefit</u> <u>payments</u> <u>subsequent to the</u> <u>measurement date</u>	<u>Recognition of</u> <u>net deferred</u> <u>outflows/(inflows)</u> <u>of resources by year</u>	<u>Total</u>
2023	\$ 36,651	\$ (67,347)	\$ (30,696)
2024		(67,347)	(67,347)
2025		(67,347)	(67,347)
2026		(66,463)	(66,463)
2027		(57,481)	(57,481)
Thereafter		(157,037)	(157,037)
	\$ 36,651	\$ (483,022)	\$ (446,371)

Note M - Employee Health Insurance Claims

The Hospital is partially self-insured for health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of \$120,000 for each covered individual after the aggregating specific deductible of \$150,000 is met. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained an insurance company as its agent to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts covered by reinsurance.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note M - Employee Health Insurance Claims - Continued

The following is a summary of the activity under this arrangement:

	<u>2022</u>	<u>2021</u>
Estimated employee health insurance claims payable at beginning of period	\$ 305,000	\$ 283,000
Provision for employer's share of incurred claims expenses for the period	3,901,637	3,456,889
Employee contributions	1,242,331	1,253,563
Payments made for claims, expenses, and reinsurance	<u>(5,130,968)</u>	<u>(4,688,452)</u>
Estimated employee health insurance claims payable at end of period	<u>\$ 318,000</u>	<u>\$ 305,000</u>

Note N - Interest Expense

Total interest costs incurred are as follows:

	<u>2022</u>	<u>2021</u>
Total interest incurred	\$ 736,721	\$ 733,674
Amortization of bond premium	(131,105)	(138,754)
Amortization of deferred outflows on advance refunding		26,427
Amortization of prepaid bond insurance	<u>8,305</u>	<u>8,790</u>
Interest expense	<u>\$ 613,921</u>	<u>\$ 630,137</u>

Note O - Deposits with Financial Institutions

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Statutes also require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. 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 or the Federal Home Loan Bank.

The carrying amount of the Hospital's deposits with financial institutions was \$13,237,857 and the bank balance was \$14,006,811 at December 31, 2022.

The bank balance is categorized as follows:

Amount insured by the F.D.I.C., bank deposit guaranty bond, or collateralized with securities held by the Hospital in its name	\$ 250,000
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	<u>13,756,811</u>
	<u>\$ 14,006,811</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note P - Concentration of Credit Risk

The Hospital is located in Emporia, 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>2022</u>	<u>2021</u>
Medicare	31 %	28 %
Medicaid	12	12
Blue Cross	18	21
Commercial insurance	17	17
Self-pay	<u>22</u>	<u>22</u>
	<u>100 %</u>	<u>100 %</u>

Note Q - Risk Management

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$500,000 per occurrence up to an annual aggregate of \$1,500,000 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 \$500,000 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 \$1,500,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$7,000,000 per occurrence with an aggregate amount in any policy year of \$7,000,000. All coverage is on a claims-made basis. The above policies were renewed in January 2023 for the policy period from January 1, 2023 to January 1, 2024.

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 and 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 R - Receivables Sold with Recourse

The Hospital has an agreement with a local financial institution under which it sells the Hospital's interest in certain self-pay accounts receivable. Sales under this agreement in 2022 and 2021 amounted to approximately \$138,000 and \$138,000, respectively. At December 31, 2022 and 2021, approximately \$255,000 and \$246,000 of such receivables remained uncollected. The receivables are sold with full recourse, and the Hospital is contingently liable for any uncollected amounts. The Hospital has recorded a liability for receivables sold at December 31, 2022 and 2021, of \$47,000 and \$62,000, respectively.

Note S - Related Party Transactions

The Hospital paid \$284,652 in 2022 to a company that is owned by a board member for patient account collection services.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note T - Fair Value Measurements

The Hospital categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are unadjusted quoted prices for identical assets in active markets. Level 2 inputs are significant other observable inputs. Level 3 inputs are unobservable, supported by little or no market activity.

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

Money market treasury fund is valued at unadjusted quoted prices for identical securities in active markets (Level 1 inputs).

U.S. Government and Agency bonds are valued at prices provided by independent pricing services (Level 2 inputs).

The Hospital has the following recurring fair value measurements at December 31, 2022 and 2021, included under the caption of Assets Limited as to Use under bond indenture agreements held by trustee:

Money Market Treasury Fund of \$51,753 and \$771, respectively, are valued at unadjusted quoted prices (Level 1).

U.S. Government and Agency obligations of \$842,511 and \$1,726,261, respectively, are valued at prices provided by independent pricing services to the trustee (Level 2).

Note U - Assets Held in Community Foundation Custodian Account

On December 26, 2019, the Newman Hospital Regional Foundation (Foundation) entered into an agreement to transfer all of its cash and investments to the Emporia Community Foundation (ECF) which were used to establish a field of interest fund titled Newman Regional Health Fund (Fund). The Foundation was subsequently dissolved. An Advisory committee was established with the creation of the Fund that may recommend disbursements up to the value of the Fund for projects and programs within the scope of the Fund and donors. The market value of the assets held by ECF and held in a custodian account on behalf of the Hospital was \$5,876,733 and \$7,626,400 as of December 31, 2022 and 2021, respectively. During the years ended December 31, 2022 and 2021, the Hospital received contributions totaling \$844,047 and \$123,231. These amounts are reported in noncapital and capital grants and contributions.

The assets related to this agreement are not included in the accompanying financial statements as the agreement grants variance power over the funds to the ECF.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note V - Adoption of New Accounting Standard

As of January 1, 2021, the Hospital adopted GASB Statement No. 87, "Leases." The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows for resources or outflows of resources based on the payment provisions of the contract. The standard also requires lessors to recognize a lease receivable and deferred inflow of resources. Beginning net position was restated to retroactively adopt the provisions of GASB No. 87 as follows:

	Amount as previously <u>reported</u>	Change in Accounting <u>Principle</u>	Amount as <u>restated</u>
Statement of Net Position			
Current assets			
Lease receivables, current portion	\$ -	\$ 160,749	\$ 160,749
Total current assets	39,588,931	160,749	39,749,680
Leased assets, net of accumulated amortization		1,238,518	1,238,518
Capital assets	26,740,722	552,067	27,292,789
Leased receivables, less current portion		1,442,433	1,442,433
Total assets	68,046,058	2,155,249	70,201,307
Liabilities, deferred inflows of resources, and net position			
Current maturities of long-term debt	1,069,253	(180,500)	888,753
Current maturities of leases		202,446	202,446
Long-term debt, less current maturities	17,070,656	(416,258)	16,654,398
Leases, less current maturities		1,024,431	1,024,431
Total liabilities	51,876,349	630,119	52,506,468
Lease related deferred inflows of resources		1,603,182	1,603,182
Net investment in capital assets	8,600,813	222,484	8,823,297
Total net position	15,369,871	(78,052)	15,291,819
Total liabilities, deferred inflows of resources, and net position	74,422,089	2,155,249	76,577,338

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2022 and 2021

Note V - Adoption of New Accounting Standard - Continued

	<u>Amount as previously reported</u>	<u>Change in Accounting Principle</u>	<u>Amount as restated</u>
Statement of Revenues, Expenses, and Changes in Net Position			
Supplies and other expenses	\$ 28,286,306	\$ (42,937)	\$ 28,243,369
Depreciation and amortization	3,049,984	36,400	3,086,384
Total operating expenses	73,410,632	(6,537)	73,404,095
Investment income	559,682		559,682
Interest expense	607,692	22,445	630,137
Excess of revenues over expenses before capital grants and contributions	11,428,386	(15,908)	11,412,478
Change in net position	11,811,872	(15,908)	11,795,964
Net position, beginning of year	3,557,999	(62,144)	3,495,855
Net position, end of year	15,369,871	(78,052)	15,291,819
Statement of Cash Flows			
Operating activities			
Payments to suppliers	\$(27,336,533)	\$ 42,937	\$(27,293,596)
Net cash used by operating activities	(466,880)	42,937	(423,943)
Noncapital financing activities			
Interest paid on noncapital related debt		(15,861)	(15,861)
Principal payments on noncapital long-term debt		(66,008)	(66,008)
Net cash provided by noncapital financing activities	3,088,298	(81,869)	3,006,429
Capital and capital related financing activities			
Interest paid on lease liabilities		(47,705)	(47,705)
Principal paid on lease liabilities		(194,746)	(194,746)
Interest paid on long-term debt	(713,229)	41,121	(672,108)
Principal paid on long-term debt	(1,162,380)	240,262	(922,118)
Net cash used by capital related financing activities	(3,814,744)	38,932	(3,775,812)

Note W - Commitments

Subsequent to year-end, the Hospital entered into an agreement to purchase a building adjacent to the Hospital's campus for \$807,500. This transaction is expected close in June 2024.

Required Supplementary Information

**Newman Memorial County Hospital d/b/a Newman Regional Health
Schedule of the Hospital's Proportionate Share of the
Net Defined Pension Plan Liability**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Hospital's proportion of the net pension liability	1.5468%	1.5179%	1.4850%	1.5163%	1.5180%	1.4379%	1.4021%	1.3113%	1.3564%	1.2942%
Hospital's proportionate share of the net pension liability	\$ 30,751,865	\$ 18,214,327	\$ 25,745,143	\$ 21,188,245	\$ 21,158,290	\$ 20,827,835	\$ 21,690,948	\$ 17,217,737	\$ 16,695,265	\$ 19,700,203
Hospital's covered employee payroll	32,558,258	30,224,036	28,723,995	28,154,432	27,809,631	26,441,702	23,875,340	22,679,072	22,551,539	21,110,604
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	94.45%	60.26%	89.63%	75.26%	76.08%	78.77%	90.85%	75.92%	74.03%	93.32%
Plan fiduciary net position as a percentage of the total pension liability	70.66%	81.14%	70.77%	75.02%	74.22%	72.15%	68.55%	71.98%	72.56%	64.56%

**Newman Memorial County Hospital d/b/a Newman Regional Health
Schedule of Hospital Contributions to Defined Pension Plan**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 2,897,685	\$ 2,680,872	\$ 2,473,136	\$ 2,502,929	\$ 2,333,228	\$ 2,236,968	\$ 2,188,919	\$ 2,225,967	\$ 1,916,622	\$ 1,682,203
Contributions in relation to the contractually required contribution	<u>(2,897,685)</u>	<u>(2,680,872)</u>	<u>(2,473,136)</u>	<u>(2,502,929)</u>	<u>(2,333,228)</u>	<u>(2,236,968)</u>	<u>(2,188,919)</u>	<u>(2,225,967)</u>	<u>(1,916,622)</u>	<u>(1,682,203)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	<u>\$ 32,558,258</u>	<u>\$ 30,224,036</u>	<u>\$ 28,723,995</u>	<u>\$ 28,154,432</u>	<u>\$ 27,809,631</u>	<u>\$ 26,441,702</u>	<u>\$ 23,875,340</u>	<u>\$ 22,679,072</u>	<u>\$ 22,551,539</u>	<u>\$ 21,110,604</u>
Contributions as a percentage of covered-employee payroll	8.90%	8.87%	8.61%	8.89%	8.39%	8.46%	9.17%	9.82%	8.50%	7.97%

Newman Memorial County Hospital d/b/a Newman Regional Health
Schedule of Changes in the Hospital's
Total OPEB Liability and Related Ratios
June 30,

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Service cost	\$ 113,713	\$ 107,603	\$ 100,722	\$ 96,894	\$ 95,704	\$ 93,936
Interest on total OPEB liability	19,022	18,994	31,339	31,453	35,035	27,344
Effect of economic/demographic gains or losses	(209,670)	(33,434)	(127,193)	22,290	(213,980)	
Effect of assumption changes or inputs	(117,615)	985	35,454	10,450	(8,148)	(26,656)
Benefit payments	<u>(73,302)</u>	<u>(84,795)</u>	<u>(81,231)</u>	<u>(83,165)</u>	<u>(68,393)</u>	<u>(86,043)</u>
Net change in total OPEB liability	<u>(267,852)</u>	<u>9,353</u>	<u>(40,909)</u>	<u>77,922</u>	<u>(159,782)</u>	<u>8,581</u>
Total OPEB liability, beginning	<u>803,393</u>	<u>794,040</u>	<u>834,949</u>	<u>757,027</u>	<u>916,809</u>	<u>908,228</u>
Total OPEB liability, ending	<u>\$ 535,541</u>	<u>\$ 803,393</u>	<u>\$ 794,040</u>	<u>\$ 834,949</u>	<u>\$ 757,027</u>	<u>\$ 916,809</u>
Covered payroll	<u>\$ 27,852,000</u>	<u>\$ 27,252,000</u>	<u>\$ 26,015,000</u>	<u>\$ 26,426,000</u>	<u>\$ 25,904,000</u>	<u>\$ 23,561,000</u>
Total OPEB liability as a % of covered payroll	1.92%	2.95%	3.05%	3.16%	2.92%	3.89%

Supplementary Information

**Newman Memorial County Hospital d/b/a Newman Regional Health
Schedule of Expenditures of Federal Awards
Year ended December 31, 2022**

<u>Federal grantor/pass-through grantor/program title</u>	<u>Assistance listing number</u>	<u>Pass-through entity identifying number</u>	<u>Passed through to subrecipients</u>	<u>Total federal expenditures</u>
U.S. Department of Health and Human Services				
COVID-19 Provider Relief Funds	93.498	N/A	\$ -	\$ 2,390,437
COVID-19 Rural Health Clinic Vaccine Confidence Program	93.912	N/A		34,765
COVID-19 HRSA Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461	N/A		81,429
Passed through Healthworks KHA Foundation, Inc.				
Small Hospital Improvement Program	93.301	N/A		11,474
COVID-19 Small Hospital Improvement Program	93.301	N/A		85,534
Passed through Kansas Department of Health and Environment				
Activities to Support State, Tribal, Local and Territorial (STLT)				
Health Department Response to Public Health or				
Healthcare Crises	93.391	N/A		114,071
Preventative Health and Health Services Block Grant	93.991	N/A	_____	_____2,300
Total U.S. Department of Health and Human Services			_____ -	_____2,720,010
Total federal awards			\$ _____ -	\$ _____2,720,010

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to the Schedule of Expenditures of Federal Awards
Year ended December 31, 2022

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant award activity of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital) under programs of the federal government for the year ended December 31, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the Hospital, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hospital.

Note 2 - Significant Accounting Policies

Expenditures on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles continued in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 - Other Expenditures

The Hospital did not receive any other federal awards in the form of noncash assistance, insurance, loans, or loan guarantees and incurred no expenditures in relation thereof for the year ended December 31, 2022.

Note 4 - Indirect Cost Rate

The Hospital has elected not to use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance. The Hospital's federal expenditures do not include indirect administrative expenses.

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Trustees
Newman Memorial County Hospital

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated June 26, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wendling Noe Nelson & Johnson LLC
Topeka, Kansas
June 26, 2023

**Independent Auditor's Report on Compliance for Each Major Program and on
Internal Control Over Compliance Required by the Uniform Guidance**

Board of Trustees
Newman Memorial County Hospital

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Newman Memorial County Hospital d/b/a Newman Regional Health's (the Hospital) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2022. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Hospital's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Hospital's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance will always detect

material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.


Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Topeka, Kansas
June 26, 2023

**Newman Memorial County Hospital d/b/a Newman Regional Health
 Schedule of Findings and Questioned Costs
 Year ended December 31, 2022**

Section I - Summary of Auditors' Results

Financial statements

Type of opinion expressed in the auditor's report issued		Unmodified
Internal control over financial reporting		
• Material weakness(es) identified?	___ Yes	_X_ No
• Significant deficiencies identified that are not considered to be material weakness(es)?	___ Yes	_X_ None reported
Noncompliance material to financial statements noted	___ Yes	_X_ No

Federal awards

Internal control over major programs		
• Material weakness(es) identified?	___ Yes	_X_ No
• Significant deficiencies identified that are not considered to be material weakness(es)?	___ Yes	_X_ None reported
Type of auditor's report issued on compliance for major programs		Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)	___ Yes	_X_ No

Identification of major programs

<u>CFDA Number</u>	<u>Name of Program</u>
93.498	Provider Relief Fund

Dollar threshold used to distinguish between type A and type B programs	\$750,000
---	-----------

Entity qualified as low-risk auditee	___ Yes	_X_ No
--------------------------------------	---------	--------

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None