

**Independent Auditor's Report and Financial Statements
Newman Memorial County Hospital
d/b/a Newman Regional Health
December 31, 2023 and 2022**

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**Newman Memorial County Hospital d/b/a Newman Regional Health
Management's Discussion and Analysis
Years ended December 31, 2023 and 2022**

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, 2023 and 2022. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital's net position decreased by \$2,028,702 or 18.1 percent in 2023 as compared to decreasing by \$4,073,290 or 26.6 percent in 2022.

The Hospital reported an operating loss of \$4,123,496 in 2023 compared to an operating loss of \$7,328,619 in 2022. Significant items that affected the change in this loss from 2022 to 2023 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, 2023 and 2022**

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>2023</u>	<u>2022</u>	<u>2021</u>
Assets			
Current assets	\$ 30,375,588	\$ 28,055,388	\$ 39,749,680
Assets limited as to use	1,595,528	1,604,782	1,471,104
Capital assets, net	27,781,136	29,294,262	27,292,789
Other assets	<u>2,539,004</u>	<u>3,015,514</u>	<u>1,687,734</u>
 Total assets	 <u>62,291,256</u>	 <u>61,969,946</u>	 <u>70,201,307</u>
Liabilities			
Current liabilities	(10,519,618)	(8,127,380)	(15,809,919)
Long-term obligations	<u>(16,422,066)</u>	<u>(18,357,765)</u>	<u>(17,678,829)</u>
 Total liabilities excluding net pension and OPEB liabilities	 <u>(26,941,684)</u>	 <u>(26,485,145)</u>	 <u>(33,488,748)</u>
Deferred inflows related to lease receivables	(2,589,678)	(3,038,483)	(1,603,182)
Pension and OPEB liabilities net of deferred outflows and net deferred inflows of resources related to pension and OPEB plans	<u>(23,570,067)</u>	<u>(21,227,789)</u>	<u>(19,817,558)</u>
 Net position	 <u>\$ 9,189,827</u>	 <u>\$ 11,218,529</u>	 <u>\$ 15,291,819</u>

Our liquidity position when measured by the ratio of current assets to current liabilities was 2.9 in 2023, 3.5 in 2022, and 2.5 in 2021. Current assets increased by \$2,320,200 in 2023 and decreased by \$11,694,292 in 2022. Significant components of current assets are cash and cash equivalents and patient accounts receivable. Cash and cash equivalents totaled \$14.5 million in 2023 and \$13.2 million in 2022. 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 52 days in 2023, 50 days in 2022, and 52 days in 2021.

Total liabilities, excluding the net pension and OPEB liabilities, increased in 2023 by \$456,539 and decreased in 2022 by \$7,003,603. The significant items affecting the decrease in 2022 are the Hospital 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 \$23,570,067, \$21,227,789, and \$19,817,558 at December 31, 2023, 2022, and 2021, 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.

**Newman Memorial County Hospital d/b/a Newman Regional Health
Management's Discussion and Analysis - Continued
Years ended December 31, 2023 and 2022**

Operating results and changes in net position

In 2023, the Hospital's net position decreased by \$2,028,702 or 18 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>2023</u>	<u>2022</u>	<u>2021</u>
Operating revenues			
Net patient service revenue	\$ 79,764,725	\$ 73,941,391	\$ 69,895,170
Other operating revenue	<u>3,225,218</u>	<u>3,567,660</u>	<u>2,974,120</u>
Total operating revenue	<u>82,989,943</u>	<u>77,509,051</u>	<u>72,869,290</u>
Operating expenses			
Salaries and wages	39,547,092	36,544,041	34,136,223
Employee benefits	11,855,001	10,803,598	7,938,119
Supplies and other expenses	32,007,367	33,993,770	28,243,369
Depreciation and amortization	<u>3,703,979</u>	<u>3,496,261</u>	<u>3,086,384</u>
Total operating expenses	<u>87,113,439</u>	<u>84,837,670</u>	<u>73,404,095</u>
Operating loss	(4,123,496)	(7,328,619)	(534,805)
Interest expense	(593,990)	(618,677)	(630,137)
Property taxes	375,000	350,000	300,000
Other nonoperating revenues (expenses)	2,034,932	2,932,122	12,277,420
Capital grants and contributions	<u>278,852</u>	<u>568,819</u>	<u>383,486</u>
Change in net position	<u>\$ (2,028,702)</u>	<u>\$ (4,096,355)</u>	<u>\$ 11,795,964</u>

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 \$4,123,496 in 2023, a \$3,205,123 decrease in loss as compared with 2022. There were three noticeable changes between 2023 and 2022 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 \$5,823,334 in 2023, and increased by \$4,046,221 in 2022, both as compared with the prior year. Another item affecting the change in operating loss was the 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 \$2,342,278 in 2023, \$1,410,231 in 2022, and \$(697,276) in 2021. The last noticeable change is increase in both employed personnel and contracted labor costs. Salaries and wages expense increased in 2023 by \$3,003,051 after increasing by \$2,407,816 in 2022. Contracted labor costs decreased by \$2,792,611 in 2023 after increasing by \$3,023,968 in 2022.

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 18 percent of gross revenues from inpatient services and 82 percent from outpatient and physician services. The Medicare program, which accounts for 49 percent of the Hospital's net revenues,

**Newman Memorial County Hospital d/b/a Newman Regional Health
Management's Discussion and Analysis - Continued
Years ended December 31, 2023 and 2022**

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 7.9 percent in 2023 as compared to 2022, and increased by 5.8 percent in 2022 as compared to 2021. 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 8,322, 7,908, and 8,233 in 2023, 2022, and 2021, 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 2023, 2022, and 2021, the Hospital recognized Medicaid DSH revenue of \$1,339,650, \$1,177,978, and \$1,063,974, 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 5.3 percent in 2023. This compares to 5.0 percent in 2022 and 5.3 percent in 2021. Total discounts granted to uninsured or charity care patients equaled \$3,357,579 in 2023 as compared to \$2,487,699 in 2022 and \$2,681,252 in 2021.

Salaries and benefits are significant components of operations. Total salaries and wages increased by 8.2 percent in 2023, 7.1 percent in 2022, and by 5.2 percent in 2021. 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 24.1, 25.7, and 25.3 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 decreased approximately \$380,000 in 2023 and increased approximately \$380,000 in 2022 as compared to the prior year. Our KPERs cash funding (excluding the pension adjustment) was 8.4 percent, 8.9 percent, and 8.9 percent of covered salary in 2023, 2022, and 2021. As noted above, the effect of the actuarial determined pension and OPEB expense was a \$2,342,278 increase in expense in 2023, \$1,410,231 increase in 2022, and a \$697,276 decrease in 2021. Additional information related to the funding of our pension obligations can be found in the footnotes and supplementary information.

Supplies and other expenses decreased by \$1,986,403 or 5.8 percent in 2023 and increased by \$5,750,401 or 20.4 in 2022, as compared to 2021. The decrease in 2023 expense is due to a decrease of contract labor which was a good portion of the increase in 2022 as compared to 2021.

Depreciation and amortization expenses increased \$207,718 in 2023, increased \$409,877 in 2022, and decreased by \$974,839 in 2021. 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 \$2,094,794 in 2023, \$3,232,264 in 2022, and \$12,330,769 in 2021. The decrease in 2023 is due to the Hospital recognizing less grants associated with the pandemic funding. 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, 2023 and 2022, 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, 2023 and 2022, 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 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.

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 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 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 4, 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.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
April 11, 2024

Financial Statements

Newman Memorial County Hospital d/b/a Newman Regional Health
Statements of Net Position
December 31, 2023 and 2022

Assets and Deferred Outflows of Resources

	<u>2023</u>	<u>2022</u>
Current assets		
Cash and cash equivalents	\$ 14,501,204	\$ 13,180,834
Assets limited as to use	182,978	171,382
Patient accounts receivable, net of estimated uncollectibles of \$2,625,600 in 2023 and \$2,317,300 in 2022	11,441,550	10,186,757
Other receivables	436,040	1,024,377
Lease receivables	457,499	448,805
Inventories	1,918,369	1,907,582
Prepaid expenses	425,946	375,656
Estimated third-party payor settlements	<u>1,012,002</u>	<u>759,995</u>
Total current assets	<u>30,375,588</u>	<u>28,055,388</u>
Assets limited as to use		
Under bond indenture agreements - held by trustee	1,595,528	1,541,083
Under financing agreement - held in escrow	<u> </u>	<u>63,699</u>
Total assets limited as to use	<u>1,595,528</u>	<u>1,604,782</u>
Capital assets		
Capital assets not being depreciated	1,833,058	1,745,175
Depreciable capital assets, net of accumulated depreciation	24,915,024	26,211,715
Leased assets, net of accumulated amortization	824,644	1,060,592
Subscription IT assets, net of accumulated amortization	<u>208,410</u>	<u>276,780</u>
Total capital assets	<u>27,781,136</u>	<u>29,294,262</u>
Other assets		
Lease receivables, less current portion	2,132,179	2,589,678
Other receivables	355,189	366,316
Prepaid bond insurance	<u>51,636</u>	<u>59,520</u>
Total other assets	<u>2,539,004</u>	<u>3,015,514</u>
Total assets	<u>62,291,256</u>	<u>61,969,946</u>
Deferred outflows of resources		
Pension and other postemployment benefits	<u>10,269,419</u>	<u>10,823,254</u>
Total assets and deferred outflows of resources	<u>\$ 72,560,675</u>	<u>\$ 72,793,200</u>

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2023</u>	<u>2022</u>
Current liabilities		
Current maturities of long-term debt	\$ 1,486,101	\$ 1,444,437
Current maturities of lease liabilities	237,540	230,452
Current maturities of subscription IT liabilities	59,678	66,618
Accounts payable and accrued expenses	1,949,392	2,015,891
Accrued salaries, vacation, benefits, and payroll taxes	4,785,035	4,208,161
Other current liabilities	133,872	161,821
Estimated third-party payor settlements	<u>1,868,000</u>	<u> </u>
Total current liabilities	<u>10,519,618</u>	<u>8,127,380</u>
Noncurrent liabilities		
Long-term debt, less current maturities	15,697,820	17,336,302
Lease liabilities, less current maturities	595,666	833,205
Subscription IT liabilities, less current maturities	128,580	188,258
Other postemployment benefits liability	474,849	535,541
Net pension liability	<u>32,778,317</u>	<u>30,751,865</u>
Total noncurrent liabilities	<u>49,675,232</u>	<u>49,645,171</u>
Total liabilities	<u>60,194,850</u>	<u>57,772,551</u>
Deferred inflows of resources		
Pension and other postemployment benefits	586,320	763,637
Lease receivables	<u>2,589,678</u>	<u>3,038,483</u>
Total deferred inflows of resources	<u>3,175,998</u>	<u>3,802,120</u>
Net position		
Net investment in capital assets	9,667,111	9,417,643
Restricted		
For debt service	1,778,507	1,712,465
For capital purchases		216,675
For specific operating activities	28,111	35,197
Unrestricted	<u>(2,283,902)</u>	<u>(163,451)</u>
Total net position	<u>9,189,827</u>	<u>11,218,529</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 72,560,675</u>	<u>\$ 72,793,200</u>

**Newman Memorial County Hospital d/b/a Newman Regional Health
Statements of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Operating revenues		
Net patient service revenue	\$ 79,764,725	\$ 73,941,391
Other	<u>3,225,218</u>	<u>3,567,660</u>
Total operating revenues	<u>82,989,943</u>	<u>77,509,051</u>
Operating expenses		
Salaries and wages	39,547,092	36,544,041
Employee benefits	9,512,723	9,393,367
Actuarial adjustments for pension and OPEB expenses	2,342,278	1,410,231
Supplies and other expenses	32,007,367	33,993,770
Depreciation and amortization	<u>3,703,979</u>	<u>3,496,261</u>
Total operating expenses	<u>87,113,439</u>	<u>84,837,670</u>
Operating loss	<u>(4,123,496)</u>	<u>(7,328,619)</u>
Nonoperating revenues (expenses)		
Investment income	1,592,833	921,195
Interest expense	(593,990)	(618,677)
Noncapital grants and contributions	415,495	964,316
COVID-19 noncapital grants	11,499	1,124,787
Property taxes	375,000	350,000
Other	<u>15,105</u>	<u>(78,176)</u>
Total nonoperating revenues (expenses)	<u>1,815,942</u>	<u>2,663,445</u>
Excess of expenses over revenues before capital grants and contributions	<u>(2,307,554)</u>	<u>(4,665,174)</u>
Capital grants and contributions	<u>278,852</u>	<u>568,819</u>
Change in net position	<u>(2,028,702)</u>	<u>(4,096,355)</u>
Net position at beginning of year		
As previously reported	11,196,625	15,291,819
Prior period adjustment for change in accounting principle	<u>21,904</u>	<u>23,065</u>
As restated	<u>11,218,529</u>	<u>15,314,884</u>
Net position, end of year	<u>\$ 9,189,827</u>	<u>\$ 11,218,529</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 80,114,925	\$ 65,676,419
Payments to or on behalf of employees	(48,334,616)	(46,062,005)
Payments to suppliers	(32,134,943)	(34,152,170)
Other receipts and payments	<u>3,519,899</u>	<u>3,225,391</u>
Net cash provided (used) by operating activities	<u>3,165,265</u>	<u>(11,312,365)</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	415,495	964,316
Property taxes	375,000	425,000
COVID-19 relief payments received	11,499	43,260
Interest paid on noncapital related debt	(7,977)	(12,041)
Principal paid on noncapital related debt	<u>(67,594)</u>	<u>(63,530)</u>
Net cash provided by noncapital financing activities	<u>726,423</u>	<u>1,357,005</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(2,156,748)	(5,291,602)
Grants and contributions for capital	259,852	527,372
Proceeds from incurrence of long-term debt		2,700,000
Interest paid on subscription IT liabilities	(5,457)	(4,756)
Principal paid for subscription IT liabilities	(66,618)	(91,636)
Interest paid on lease liabilities	(33,437)	(42,111)
Principal paid for lease liabilities	(230,451)	(221,453)
Interest paid on long-term debt	(665,811)	(684,630)
Principal payments on long-term debt	<u>(1,404,773)</u>	<u>(1,267,777)</u>
Net cash used by capital and related financing activities	<u>(4,303,443)</u>	<u>(4,376,593)</u>
Cash flows from investing activities		
Change in assets held under bond indenture agreement	11,854	(38,932)
Other investing activities, net	141,634	14,694
Interest received	<u>1,578,637</u>	<u>917,747</u>
Net cash provided by investing activities	<u>1,732,125</u>	<u>893,509</u>
Change in cash and cash equivalents	1,320,370	(13,438,444)
Cash and cash equivalents at beginning of year	<u>13,180,834</u>	<u>26,619,278</u>
Cash and cash equivalents at end of year	<u>\$ 14,501,204</u>	<u>\$ 13,180,834</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	\$ (4,123,496)	\$ (7,328,619)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	3,703,979	3,496,261
Provision for bad debts	4,592,050	4,385,582
Changes in		
Patient accounts receivable	(5,846,843)	(4,722,182)
Inventories	(10,787)	(18,371)
Prepaid expenses	(50,290)	109,634
Other receivables	457,830	(664,269)
Accounts payable and accrued expenses	484,551	(67,260)
Estimated third-party payor settlements	1,615,993	(1,859,995)
Medicare accelerated payments		(6,053,377)
Net pension and OPEB liability, deferred outflows related to pension and OPEB liabilities	<u>2,342,278</u>	<u>1,410,231</u>
Net cash provided (used) by operating activities	<u>\$ 3,165,265</u>	<u>\$ (11,312,365)</u>
Supplemental schedule of noncash investing and financing activities		
Noncash right-of-use obligations incurred	\$ -	\$ 58,233
Donated capital asset	19,000	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, 2023 and 2022

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 net realizable value 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, 2023 and 2022

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.

Subscription assets are recognized at the subscription commencement date and represent the Hospital's right to use an underlying IT asset for the subscription term. Subscription assets are measured at the initial value of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized over the shorter of the subscription 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 L). 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.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

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

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.

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.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

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

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.

21. Reclassifications

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 presentation. The reclassifications had no effect on the changes in financial position.

22. Adoption of accounting pronouncements

Effective January 1, 2022, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA). Under GASB 96, a SBITA user is required to recognize a subscription liability and an intangible right-to-use subscription asset. GASB 96 requires a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest period presented (i.e., January 1, 2022). The effect of the implementation of this standard on beginning net position was \$23,065 applicable to 2021 and prior years and has been included in the restated 2022 beginning net position. See Note U 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, 2020.

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

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note B - Net Patient Service Revenue - Continued

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.

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>2023</u>	<u>2022</u>
Gross patient service revenue	\$148,886,196	\$138,273,118
Deductions from patient service revenue		
Third-party contractual adjustments	(62,458,515)	(58,549,234)
Medicaid DSH payments	1,339,650	1,177,978
Provision for bad debts	(4,592,050)	(4,385,582)
Charity care	(1,981,364)	(1,161,960)
Uninsured discounts	(1,376,215)	(1,325,739)
Other discounts and allowances	<u>(52,977)</u>	<u>(87,190)</u>
Net patient service revenue	<u>\$ 79,764,725</u>	<u>\$ 73,941,391</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 49 percent and 9 percent, respectively, of the Hospital's net patient revenue during 2023, and 51 percent and 9 percent, respectively, of the Hospital's net patient revenue during 2022. 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 \$1,058,000 and \$656,000 for 2023 and 2022, 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>2023</u>	<u>2022</u>
Principal and interest sinking fund	\$ 182,978	\$ 171,382
Interest receivable	12,502	4,154
Bond reserve fund	<u>1,583,026</u>	<u>1,536,929</u>
	<u>\$ 1,778,506</u>	<u>\$ 1,712,465</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note C - Assets Limited as to Use - Continued

Assets are invested by the trustee as follows:

	<u>2023</u>	<u>2022</u>
Cash	\$ 182,328	\$ 814,047
Money Market Treasury fund	650	51,753
U.S. Government and Agency obligations at fair value	1,583,026	842,511
Interest receivable	<u>12,502</u>	<u>4,154</u>
	<u>\$ 1,778,506</u>	<u>\$ 1,712,465</u>

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, 2023 and 2022, the Hospital has recognized leased receivables and deferred inflows of resources of \$2,589,678 and \$3,038,483, respectively.

Income from these leases consisted of the following:

	<u>2023</u>	<u>2022</u>
Rent	\$ 441,915	\$ 443,647
Investment income (included in other operating revenue)	<u>93,349</u>	<u>95,904</u>
	<u>\$ 535,264</u>	<u>\$ 539,551</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 457,499	\$ 81,717	\$ 539,216
2025	481,429	69,629	551,058
2026	506,320	56,933	563,253
2027	147,342	46,834	194,176
2028	77,454	43,284	120,738
2029 - 2033	451,534	159,511	611,045
2034 - 2037	<u>468,100</u>	<u>44,268</u>	<u>512,368</u>
	<u>\$ 2,589,678</u>	<u>\$ 502,176</u>	<u>\$ 3,091,854</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note E - Capital Assets

	Balance December 31, <u>2022</u>	Transfers and additions	Retirements	Balance December 31, <u>2023</u>
Capital assets not being depreciated				
Land	\$ 1,308,632	\$ -	\$ -	\$ 1,308,632
Projects in progress	<u>436,543</u>	<u>87,883</u>	<u>-</u>	<u>524,426</u>
Total capital assets not being depreciated	<u>1,745,175</u>	<u>87,883</u>	<u>-</u>	<u>1,833,058</u>
Capital assets being depreciated				
Land improvements	869,285	28,432		897,717
Buildings and fixed equipment	73,576,686	518,582	87,636	74,007,632
Future expansion and rental property	1,096,506			1,096,506
Leasehold improvements	293,627			293,627
Major movable equipment	24,968,211	1,555,956	1,954,643	24,569,524
Intangibles	<u>13,857</u>	<u>-</u>	<u>-</u>	<u>13,857</u>
Total capital assets being depreciated	<u>100,818,172</u>	<u>2,102,970</u>	<u>2,042,279</u>	<u>100,878,863</u>
Less accumulated depreciation for				
Land improvements	673,673	18,114		691,787
Buildings and fixed equipment	54,485,854	1,786,811	87,636	56,185,029
Future expansion and rental property	170,980	30,768		201,748
Leasehold improvements	159,005	28,281		187,286
Major movable equipment	19,103,126	1,535,687	1,954,643	18,684,170
Intangibles	<u>13,819</u>	<u>-</u>	<u>-</u>	<u>13,819</u>
Total accumulated depreciation	<u>74,606,457</u>	<u>3,399,661</u>	<u>2,042,279</u>	<u>75,963,839</u>
Total capital assets being depreciated, net	<u>26,211,715</u>	<u>(1,296,691)</u>	<u>-</u>	<u>24,915,024</u>
Leased assets being amortized				
Buildings	728,001			728,001
Major movable equipment	<u>959,975</u>	<u>-</u>	<u>-</u>	<u>959,975</u>
Total leased assets being amortized	<u>1,687,976</u>	<u>-</u>	<u>-</u>	<u>1,687,976</u>
Less accumulated amortization				
Buildings	212,334	55,812		268,146
Major movable equipment	<u>415,050</u>	<u>180,136</u>	<u>-</u>	<u>595,186</u>
Total accumulated amortization	<u>627,384</u>	<u>235,948</u>	<u>-</u>	<u>863,332</u>
Total leased assets being amortized	<u>1,060,592</u>	<u>(235,948)</u>	<u>-</u>	<u>824,644</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note E - Capital Assets - Continued

	Balance December 31, <u>2022</u>	Transfers and additions	Retirements	Balance December 31, <u>2023</u>
Subscription IT assets being amortized				
Subscription IT assets	\$ 378,496	\$ -	\$ 40,713	\$ 337,783
Less accumulated amortization	<u>101,716</u>	<u>68,370</u>	<u>40,713</u>	<u>129,373</u>
Total subscription IT assets being amortized	<u>276,780</u>	<u>(68,370)</u>	<u>-</u>	<u>208,410</u>
Capital assets, net	<u>\$ 29,294,262</u>	<u>\$ (1,513,126)</u>	<u>\$ -</u>	<u>\$ 27,781,136</u>
	Balance December 31, <u>2021</u>	Transfers and additions	Retirements	Balance December 31, <u>2022</u>
Capital assets not being depreciated				
Land	\$ 1,308,632	\$ -	\$ -	\$ 1,308,632
Projects in progress	<u>37,394</u>	<u>399,149</u>	<u>-</u>	<u>436,543</u>
Total capital assets not being depreciated	<u>1,346,026</u>	<u>399,149</u>	<u>-</u>	<u>1,745,175</u>
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	<u>13,857</u>	<u>-</u>	<u>-</u>	<u>13,857</u>
Total capital assets being depreciated	<u>96,695,198</u>	<u>4,751,832</u>	<u>628,858</u>	<u>100,818,172</u>
Less accumulated depreciation				
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	<u>13,643</u>	<u>176</u>	<u>-</u>	<u>13,819</u>
Total accumulated depreciation	<u>71,986,953</u>	<u>3,167,294</u>	<u>547,790</u>	<u>74,606,457</u>
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>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note E - Capital Assets - Continued

	Balance December 31, <u>2021</u>	Transfers and additions	<u>Retirements</u>	Balance December 31, <u>2022</u>
Leased assets being amortized				
Buildings	\$ 728,001	\$ -	\$ -	\$ 728,001
Major movable equipment	<u>901,742</u>	<u>58,233</u>	<u>-</u>	<u>959,975</u>
Total leased assets being depreciated	<u>1,629,743</u>	<u>58,233</u>	<u>-</u>	<u>1,687,976</u>
Less accumulated amortization				
Buildings	175,934	36,400		212,334
Major movable equipment	<u>215,291</u>	<u>199,759</u>	<u>-</u>	<u>415,050</u>
Total accumulated amortization	<u>391,225</u>	<u>236,159</u>	<u>-</u>	<u>627,384</u>
Total leased assets being amortized	<u>1,238,518</u>	<u>(177,926)</u>	<u>-</u>	<u>1,060,592</u>
Subscription IT assets being amortized				
Subscription IT assets	378,496			378,496
Less accumulated amortization	<u>8,919</u>	<u>92,797</u>	<u>-</u>	<u>101,716</u>
Total subscription IT assets being amortized	<u>369,577</u>	<u>(92,797)</u>	<u>-</u>	<u>276,780</u>
Capital assets, net	<u>\$ 27,662,366</u>	<u>\$ 1,712,964</u>	<u>\$ 81,068</u>	<u>\$ 29,294,262</u>

**Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022**

Note F - Long-Term Debt

Long-term debt consists of the following:

	<u>2023</u>	<u>2022</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	\$ 14,575,000	\$ 15,425,000
Net unamortized premium on bonds	815,111	939,562
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	1,702,450	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>91,360</u>	<u>158,954</u>
	17,183,921	18,780,739
Less current maturities of long-term debt	<u>(1,486,101)</u>	<u>(1,444,437)</u>
Long-term debt, net of current maturities	<u>\$ 15,697,820</u>	<u>\$ 17,336,302</u>

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

	Hospital revenue bonds	Other debt obligations	Total
Outstanding at January 1, 2022	\$ 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	15,425,000	2,416,177	17,841,177
Principal payments	<u>(850,000)</u>	<u>(622,367)</u>	<u>(1,472,367)</u>
Outstanding at December 31, 2023	<u>\$ 14,575,000</u>	<u>\$ 1,793,810</u>	<u>\$ 16,368,810</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

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>
2024	\$ 1,486,101	\$ 632,030	\$ 2,118,131
2025	1,480,608	581,565	2,062,173
2026	1,513,415	532,224	2,045,639
2027	1,033,686	487,040	1,520,726
2028	1,025,000	447,550	1,472,550
2029 - 2033	5,800,000	1,565,250	7,365,250
2034 - 2036	<u>4,030,000</u>	<u>382,350</u>	<u>4,412,350</u>
	<u>\$ 16,368,810</u>	<u>\$ 4,628,009</u>	<u>\$ 20,996,819</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. 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.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note G - Lease Liabilities

Lease liabilities are summarized as follows:

	<u>2023</u>	<u>2022</u>
Right-of-use lease liability; implied interest rate of 3.74%; payable in monthly installments of \$223 through March 1, 2024	\$ 442	\$ 3,041
Right-of-use lease liability; stated interest rate of 3.65%; payable in monthly installments of \$16,403 through March 15, 2025	228,160	412,994
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	20,044	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, 2037	<u>584,560</u>	<u>608,173</u>
	833,206	1,063,657
Less current maturities of right-of-use liabilities	<u>(237,540)</u>	<u>(230,452)</u>
Right-of-use liabilities, net of current maturities	<u>\$ 595,666</u>	<u>\$ 833,205</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, 2022	\$ 1,226,877
Additions	58,233
Principal payments	<u>(221,453)</u>
Outstanding at December 31, 2022	1,063,657
Principal payments	<u>(230,451)</u>
Outstanding at December 31, 2023	<u>\$ 833,206</u>

**Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022**

Note G - Lease Liabilities - Continued

Scheduled lease liability payments for the year ending December 31, 2023, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 237,540	\$ 25,558	\$ 263,098
2025	63,649	19,325	82,974
2026	29,092	18,159	47,251
2027	36,084	17,044	53,128
2028	39,464	15,713	55,177
2029 - 2033	237,504	55,380	292,884
2034 - 2037	<u>189,873</u>	<u>11,103</u>	<u>200,976</u>
	<u>\$ 833,206</u>	<u>\$ 162,282</u>	<u>\$ 995,488</u>

Rental expense for all leases consisted of the following:

	<u>2023</u>	<u>2022</u>
Amortization of leased assets	\$ 230,451	\$ 221,453
Interest on leased liabilities	33,913	42,111
Short-term leases	<u>295,532</u>	<u>282,934</u>
	<u>\$ 559,896</u>	<u>\$ 546,498</u>

Note H - Subscription IT Liabilities

Subscription IT liabilities are summarized as follows:

	<u>2023</u>	<u>2022</u>
Subscription IT lease liability; implied interest rate of 2.20%; payable in monthly installments ranging \$28,906 to \$28,917 through January 1, 2025	\$ 55,978	\$ 83,068
Subscription IT lease liability; implied interest rate of 2.20%; payable in monthly installments of \$2,749 through March 1, 2023		8,217
Subscription IT lease liability; implied interest rate of 2.20%; payable in monthly installments ranging \$31,984 to \$34,911 through September 1, 2027	<u>132,280</u>	<u>163,591</u>
Less current maturities of subscription IT liabilities	<u>188,258</u> <u>(59,678)</u>	<u>254,876</u> <u>(66,618)</u>
Subscription IT liabilities, net of current maturities	<u>\$ 128,580</u>	<u>\$ 188,258</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note H - Subscription IT Liabilities - Continued

The following is a summary of changes in subscription IT liabilities:

	Subscription IT liabilities
Outstanding at January 1, 2022	\$ 346,512
Principal payments	(91,636)
Outstanding at December 31, 2022	254,876
Principal payments	(66,618)
Outstanding at December 31, 2023	\$ 188,258

Scheduled subscription IT liability payments for the year ended December 31, 2023, are as follows:

	Principal	Interest	Total
2024	\$ 59,678	\$ 4,150	\$ 63,828
2025	60,997	2,830	63,827
2026	33,424	1,487	34,911
2027	34,159	751	34,910
	\$ 188,258	\$ 9,218	\$ 197,476

Note I - COVID-19 Grants

The Hospital received 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 agreed to the terms and conditions of the grant awards. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as revenues at such time the eligibility requirements have been met.

The Hospital has determined that the conditions have been met to recognize \$11,499 and \$1,338,893 of HHS provider relief funds, rural health clinic testing, and SPARK funds for the years ended December 31, 2023 and 2022, respectfully. These amounts are classified in the financial statements as COVID-19 grant revenue or capital grants and contributions during the years ended December 31, 2023 and 2022, respectfully. 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.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note J - 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 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 2023 and 2022, respectively. The employer rates established by statute at December 31, 2023 and 2022, are 8.43 percent and 8.90 percent, respectively.

**Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022**

Note J - Defined Benefit Pension Plan - Continued

The Hospital employer contributions to KPERS for the years ended December 31, 2023 and 2022, were \$2,979,550 and \$2,897,685, 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, 2023 and 2022, 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, 2023 and 2022, respectively. The contributions used exclude contributions made for prior service, excess benefits, and irregular payments. As of December 31, 2023, the Hospital's proportion was 1.564 percent which was an increase of .016 percent from its share at December 31, 2022.

Net pension liability

At December 31, 2023 and 2022, the Hospital reported a liability of \$32,778,317 and \$30,751,865, respectively, for its proportionate share of the net pension liability.

Actuarial Assumptions

The total pension liability was determined by actuarial valuations as of December 31, 2022 and 2021, which were then rolled forward to June 30, 2023 and 2022, using the following actuarial assumptions:

<u>Actuarial assumptions</u>	<u>2022</u>	<u>2021</u>
Price inflation	2.75%	2.75%
Salary increases, including wage increases	3.50% - 12.00%	3.50% - 12.00%
Long-term rate of return net of investment expense and including price inflation	7.00%	7.00%

For 2022 and 2021, 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.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note J - Defined Benefit Pension Plan - Continued

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, 2023, 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 both 2023 and 2022 was 7.00 percent. The actuarial assumptions used in the calculation of the total pension liability were based on the results of the most recent actuarial experience study.

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, 2023, 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	\$ 47,000,607	\$ 32,778,317	\$ 20,929,666

Pension Expense

For the years ended December 31, 2023 and 2022, the Hospital recognized pension expense of \$5,453,875 and \$4,340,865, 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.

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note J - Defined Benefit Pension Plan - Continued

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, 2023 and 2022, 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>2023</u>	<u>2022</u>
Deferred outflows of resources		
Differences between expected and actual experience	\$ 2,724,821	\$ 1,163,162
Changes of assumptions	3,474,045	4,915,508
Net difference between projected and actual earnings on pension plan investments	1,914,435	2,603,145
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	614,713	650,813
Employer contributions subsequent to the measurement date	<u>1,448,199</u>	<u>1,409,207</u>
Total deferred outflows of resources	<u>\$ 10,176,213</u>	<u>\$ 10,741,835</u>
Deferred inflows of resources		
Differences between expected and actual experience	\$ 4,616	\$ 55,121
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	<u>93,263</u>	<u>180,726</u>
Total deferred inflows of resources	<u>\$ 97,879</u>	<u>\$ 235,847</u>

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2023, that will be recognized in pension expense in future years:

<u>Year ended</u> <u>December 31,</u>	<u>Employer</u> <u>contributions</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>
2024	\$ 1,448,199	\$ 2,838,074	\$ 4,286,273
2025		1,771,150	1,771,150
2026		3,395,487	3,395,487
2027		609,893	609,893
2028		<u>15,531</u>	<u>15,531</u>
	<u>\$ 1,448,199</u>	<u>\$ 8,630,135</u>	<u>\$ 10,078,334</u>

**Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022**

Note K - 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.

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>2022</u>	<u>2021</u>
Inactive employees or beneficiaries currently receiving benefit payments	6	8
Active employees	<u>463</u>	<u>447</u>
 Total	 <u><u>469</u></u>	 <u><u>455</u></u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note K - Other Postemployment Benefit Plan - Continued

Total OPEB liability

At December 31, 2023 and 2022, the Hospital reported a total OPEB liability of \$474,849 and \$535,541, respectively.

Actuarial assumptions

The total OPEB liability was determined by actuarial valuations as of December 31, 2022 and 2021, which were then rolled forward to June 30, 2023 and 2022, using the following actuarial assumptions:

<u>Actuarial assumptions</u>	<u>2022</u>	<u>2021</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	3.65%	3.54%

In 2022 and 2021, mortality rates used for the death benefits were based on the RP-2014 Mortality Tables. Future mortality improvements were projected using Scales MP-2021. Mortality rates used for disability benefits were included in long-term disability claim termination rates.

The actuarial assumptions used in the December 31, 2022 and 2021 valuations were based on the results of the latest actuarial experience study conducted.

Changes in the total OPEB liability

	<u>June 30, 2023</u>	<u>June 30, 2022</u>
Liability at beginning of period	\$ 535,541	\$ 803,393
Changes for the year		
Service cost	69,677	113,713
Interest	19,478	19,022
Changes of economic/demographic gains or losses	(36,954)	(209,670)
Changes in assumptions or other inputs	(1,922)	(117,615)
Benefit payments	<u>(110,971)</u>	<u>(73,302)</u>
Net change in liability	<u>(60,692)</u>	<u>(267,852)</u>
Liability at end of period	<u>\$ 474,849</u>	<u>\$ 535,541</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note K - Other Postemployment Benefit Plan - Continued

Sensitivity of the OPEB liability to changes in the discount rate

The following table presents the total OPEB liability as of June 30, 2023, calculated using the discount rate of 3.65 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 (2.65 percent) or 1-percentage-point higher (4.65 percent) than the current rate:

	1% decrease <u>(2.65%)</u>	Current discount rate <u>(3.65%)</u>	1% increase <u>(4.65%)</u>
Total OPEB liability	\$ 491,626	\$ 474,849	\$ 456,805

OPEB expense

For the years ended December 31, 2023 and 2022, the Hospital recognized OPEB expense of \$17,978 and \$65,388, 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.

Deferred outflows of 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, 2023 and 2022, are included in the tables below.

	<u>2023</u>	<u>2022</u>
Deferred outflows of resources		
Differences between actual and expected experience	\$ 10,835	\$ 13,126
Changes in assumptions	26,885	31,642
Benefit payments subsequent to the measurement date	<u>55,486</u>	<u>36,651</u>
Total deferred outflows of resources	<u>\$ 93,206</u>	<u>\$ 81,419</u>
Deferred inflows of resources		
Differences between expected and actual experience	\$ 381,995	\$ 407,791
Changes of assumptions	<u>106,446</u>	<u>119,999</u>
Total deferred inflows of resources	<u>\$ 488,441</u>	<u>\$ 527,790</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note K - Other Postemployment Benefit Plan - Continued

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2023, that will be recognized in OPEB expense in future years:

<u>Year ended December 31,</u>	<u>Benefit payments subsequent to the measurement date</u>	<u>Recognition of net deferred outflows/(inflows) of resources by year</u>	<u>Total</u>
2024	\$ 55,486	\$ (71,177)	\$ (15,691)
2025		(71,177)	(71,177)
2026		(70,293)	(70,293)
2027		(61,311)	(61,311)
2028		(46,409)	(46,409)
Thereafter	<u> </u>	<u>(130,354)</u>	<u>(130,354)</u>
	<u>\$ 55,486</u>	<u>\$ (450,721)</u>	<u>\$ (395,235)</u>

Note L - 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 \$130,000 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.

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

	<u>2023</u>	<u>2022</u>
Estimated employee health insurance claims payable at beginning of period	\$ 318,000	\$ 305,000
Provision for employer's share of incurred claims expenses for the period	3,334,996	3,901,637
Employee contributions	1,306,205	1,242,331
Payments made for claims, expenses, and reinsurance	<u>(4,588,990)</u>	<u>(5,130,968)</u>
Estimated employee health insurance claims payable at end of period	<u>\$ 370,211</u>	<u>\$ 318,000</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note M - Interest Expense

Total interest costs incurred are as follows:

	<u>2023</u>	<u>2022</u>
Total interest incurred	\$ 710,558	\$ 741,477
Amortization of bond premium	(124,452)	(131,105)
Amortization of prepaid bond insurance	<u>7,884</u>	<u>8,305</u>
Interest expense	<u>\$ 593,990</u>	<u>\$ 618,677</u>

Note N - 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 \$14,493,248 and the bank balance was \$15,181,847 at December 31, 2023.

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)	14,849,274
Unsecured	<u>82,573</u>
	<u>\$ 15,181,847</u>

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note O - 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>2023</u>	<u>2022</u>
Medicare	34 %	31 %
Medicaid	10	12
Blue Cross	15	18
Commercial insurance	19	17
Self-pay	<u>22</u>	<u>22</u>
	<u>100 %</u>	<u>100 %</u>

Note P - 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 2024 for the policy period from January 1, 2024 to January 1, 2025.

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 Q - 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 2023 and 2022 amounted to approximately \$83,000 and \$138,000, respectively. At December 31, 2023 and 2022, approximately \$194,000 and \$255,000 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, 2023 and 2022, of \$36,000 and \$47,000, respectively.

Note R - 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, 2023 and 2022

Note S - 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, 2023 and 2022, included under the caption of Assets Limited as to Use under bond indenture agreements held by trustee:

Money Market Treasury Fund of \$650 and \$51,753, respectively, are valued at unadjusted quoted prices (Level 1).

U.S. Government and Agency obligations of \$1,583,026 and \$842,511, respectively, are valued at prices provided by independent pricing services to the trustee (Level 2).

Note T - 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 \$6,438,155 and \$5,876,733 as of December 31, 2023 and 2022, respectively. During the years ended December 31, 2023 and 2022, the Hospital received contributions totaling \$112,509 and \$844,047. 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, 2023 and 2022

Note U - Adoption of New Accounting Standard

Effective January 1, 2022, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. Under GASB 96, a SBITA user is required to recognize a subscription liability and an intangible right-to-use subscription asset. The standard requires recognition of certain subscription IT 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. Beginning net position was restated to retroactively adopt the provisions of GASB No. 96 as follows:

	<u>Amount as</u> <u>previously</u> <u>reported</u>	<u>Change in</u> <u>Accounting</u> <u>Principle</u>	<u>Amount as</u> <u>restated</u>
Statement of Net Position			
Current assets			
Subscription IT assets, net of accumulated amortization	\$ -	\$ 276,780	\$ 276,780
Capital assets	29,017,482	276,780	29,294,262
Total assets	61,693,166	276,780	61,969,946
Liabilities, deferred inflows of resources, and net position			
Current maturities of subscription IT liabilities		66,618	66,618
Subscription IT liabilities, less current maturities		188,258	188,258
Total liabilities	57,517,675	254,876	57,772,551
Net investment in capital assets	9,395,739	21,904	9,417,643
Total net position	11,196,625	21,904	11,218,529
Total liabilities, deferred inflows of resources, and net position	72,516,420	276,780	72,793,200
Statement of Revenues, Expenses, and Changes in Net Position			
Supplies and other expenses	\$ 34,090,162	\$ (96,392)	\$ 33,993,770
Depreciation and amortization	3,403,464	92,797	3,496,261
Total operating expenses	84,841,265	(3,595)	84,837,670
Interest expense	613,921	4,756	618,677
Excess of expenses over revenues before capital grants and contributions	(4,664,013)	(1,161)	(4,665,174)
Change in net position	(4,095,194)	(1,161)	(4,096,355)
Net position, beginning of year	15,291,819	23,065	15,314,884
Net position, end of year	11,196,625	21,904	11,218,529
Statement of Cash Flows			
Operating activities			
Payments to suppliers	\$(34,248,562)	\$ 96,392	\$(34,152,170)
Net cash used by operating activities	(11,408,757)	96,392	(11,312,365)
Capital and capital related financing activities			
Interest paid on subscription IT liabilities		(4,756)	(4,756)
Principal paid for subscription IT liabilities		(91,636)	(91,636)
Net cash used by capital related financing activities	(4,280,201)	(96,392)	(4,376,593)

Newman Memorial County Hospital d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2023 and 2022

Note V - Commitments

The Hospital has 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. The Hospital also recognizes the need to support the education of future nurses by the Emporia State University School of Nursing and has committed to \$500,000 in financial support over a ten-year period, or \$50,000 annually. As of December 31, 2023, the Hospital had committed to purchase approximately \$1.0M of equipment.

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>2023</u>	<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>
Hospital's proportion of the net pension liability	1.5624%	1.5468%	1.5179%	1.4850%	1.5163%	1.5180%	1.4379%	1.4021%	1.3113%	1.3564%
Hospital's proportionate share of the net pension liability	\$ 32,778,317	\$ 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
Hospital's covered employee payroll	35,344,603	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
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	92.74%	94.45%	60.26%	89.63%	75.26%	76.08%	78.77%	90.85%	75.92%	74.03%
Plan fiduciary net position as a percentage of the total pension liability	70.55%	70.66%	81.14%	70.77%	75.02%	74.22%	72.15%	68.55%	71.98%	72.56%

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

	<u>2023</u>	<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>
Contractually required contribution	\$ 2,979,550	\$ 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
Contributions in relation to the contractually required contribution	<u>(2,979,550)</u>	<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>
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>\$ 35,344,603</u>	<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>
Contributions as a percentage of covered-employee payroll	8.43%	8.90%	8.87%	8.61%	8.89%	8.39%	8.46%	9.17%	9.82%	8.50%

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>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Service cost	\$ 69,677	\$ 113,713	\$ 107,603	\$ 100,722	\$ 96,894	\$ 95,704	\$ 93,936
Interest on total OPEB liability	19,478	19,022	18,994	31,339	31,453	35,035	27,344
Effect of economic/demographic gains or losses	(36,954)	(209,670)	(33,434)	(127,193)	22,290	(213,980)	
Effect of assumption changes or inputs	(1,922)	(117,615)	985	35,454	10,450	(8,148)	(26,656)
Benefit payments	<u>(110,971)</u>	<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>(60,692)</u>	<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>535,541</u>	<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>\$ 474,849</u>	<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>\$ 30,959,000</u>	<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	1.53%	1.92%	2.95%	3.05%	3.16%	2.92%	3.89%