

**Independent Auditor's Report and Financial Statements
Neosho Memorial Regional Medical Center
December 31, 2019 and 2018**

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**Neosho Memorial Regional Medical Center
Management's Discussion and Analysis
Years ended December 31, 2019 and 2018**

Our discussion and analysis of the financial performance of Neosho Memorial Regional Medical Center provides a narrative overview of the Medical Center's financial activities for the years ended December 31, 2019 and 2018. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Medical Center's net position increased by \$558,170, or 1.8 percent, in 2019, and decreased by \$1,677,772, or 5.0 percent, in 2018.

The Medical Center reported operating losses of \$909,943, \$2,905,673, and \$2,814,284 in 2019, 2018, and 2017, respectively.

Using these financial statements

The Medical Center'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 and resources of the Medical Center, and the Neosho Memorial Hospital Foundation, Inc., The Foundation of Neosho Memorial Regional Medical Center, and The Green Living Foundation, Inc., component units of the Medical Center.

One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center 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 Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes in them. The Medical Center's net position - the difference between assets and liabilities - may be thought of as one way to measure the financial health, or financial position. Over time, increases or decreases in the Medical Center's net position is 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 Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

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?"

**Neosho Memorial Regional Medical Center
Management's Discussion and Analysis - Continued
Years ended December 31, 2019 and 2018**

Assets, liabilities, and net position

Table 1 below summarizes the Medical Center's statements of net position for the latest three calendar years.

Table 1: Assets, Liabilities, and Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets			
Current assets	\$ 23,666,791	\$ 24,498,862	\$ 25,656,213
Capital assets, net	31,533,713	34,826,430	38,699,211
Other noncurrent assets	<u>2,744,535</u>	<u>111,768</u>	<u>407,177</u>
 Total assets	 <u>57,945,039</u>	 <u>59,437,060</u>	 <u>64,762,601</u>
 Current liabilities	 5,664,651	 6,187,523	 7,763,085
Long-term liabilities	<u>19,938,378</u>	<u>21,465,697</u>	<u>23,537,904</u>
 Total liabilities	 <u>25,603,029</u>	 <u>27,653,220</u>	 <u>31,300,989</u>
 Total net position	 <u>\$ 32,342,010</u>	 <u>\$ 31,783,840</u>	 <u>\$ 33,461,612</u>

Cash and accounts receivable are the two most significant components of current assets. Total days cash expenses on hand is 116 days in 2019, as compared to 106 days in 2018, and 102 days in 2017. The Medical Center generated cash flows from operations of \$2,920,919 and \$3,532,458 during 2019 and 2018, respectively. These cash flows are used to fund the Medical Center's debt service requirements and capital acquisitions. Cash is also affected by timing of collection of accounts receivable. Net accounts receivable at December 31, 2019, 2018, and 2017, were \$7,265,810, \$6,503,962, and \$7,704,866 representing 53, 48, and 55 days of net patient service revenue in net accounts receivable. Assets limited as to use designated for capital acquisitions increased by \$2,685,712 in 2019 as compared with 2018; there was no change between 2018 and 2017. The accompanying cash flow statement provides additional details as to the change in cash balances for 2019 and 2018.

The Medical Center's additions to capital assets were \$1,412,797 in 2019 as compared with \$1,220,168 in 2018 and \$6,614,402 in 2017. Net capital assets are also impacted by annual depreciation provisions. The Medical Center completed a multi-year addition and renovation of its facilities in 2017.

Net position or equity, decreased by 3.4 percent from 2017 to 2019. This decrease is from our operating results which are discussed below in more detail.

**Neosho Memorial Regional Medical Center
Management's Discussion and Analysis - Continued
Years ended December 31, 2019 and 2018**

Operating results and changes in net position

The Medical Center's net position increased by \$558,170 or 1.8 percent in 2019, and decreased \$1,677,772 or 5.0 percent in 2018, as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues			
Net patient service revenue	\$ 50,165,645	\$ 49,017,272	\$ 51,559,977
Other operating revenue	678,488	717,407	847,594
Electronic health record incentive revenue	<u> </u>	<u> </u>	<u>11,568</u>
Total operating revenues	<u>50,844,133</u>	<u>49,734,679</u>	<u>52,419,139</u>
Operating expenses			
Salaries and benefits	26,626,959	27,494,540	29,305,092
Supplies and other	20,427,909	20,052,864	20,644,423
Depreciation and amortization	<u>4,699,208</u>	<u>5,092,948</u>	<u>5,283,908</u>
Total operating expenses	<u>51,754,076</u>	<u>52,640,352</u>	<u>55,233,423</u>
Operating loss	(909,943)	(2,905,673)	(2,814,284)
Nonoperating revenues	1,468,113	928,148	476,174
Capital grants and contributions	<u> </u>	<u>299,753</u>	<u>251,943</u>
Change in net position	<u>\$ 558,170</u>	<u>\$ (1,677,772)</u>	<u>\$ (2,086,167)</u>

The first component of the overall change in the Medical Center's net position is its operating loss - generally the difference between net patient service revenues and other operating revenues and the expenses incurred to perform those services. The Medical Center's operating loss improved to \$909,943 in 2019, as compared to operating losses of \$2,905,673 in 2018 and \$2,814,284 in 2017.

The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, and other special payments. Net patient service revenue is also affected by changes in expenses, as a significant portion of the revenues are associated with services provided to Medicare beneficiaries whose services are reimbursed based on cost reimbursement principles.

The Medical Center's net patient service revenues increased by 2.3 percent in 2019, as compared to a 4.9 percent decrease in 2018. Our outpatient service revenues as a percentage of total revenues increased again in 2019 as compared to the previous year. In 2019, we experienced a decline in inpatient routine, ICU, and swing-bed days of 1,113 days, or 20.9 percent. As a critical access hospital, we are limited to having 25 inpatients admitted to our Medical Center at any one time. We are focused on recapturing the inpatient volumes lost in 2019 and in continuing to grow outpatient services which is consistent with national trends.

**Neosho Memorial Regional Medical Center
Management's Discussion and Analysis - Continued
Years ended December 31, 2019 and 2018**

The Medical Center generated 42 and 43 percent of its net revenue in 2019 and 2018 from the Medicare program. The Medicaid program represented 9 and 7 percent of net revenue in 2019 and 2018.

The Medical Center also meets the eligibility requirements for the State of Kansas Medicaid DSH program which awards payments to hospitals based on the level of uncompensated care provided by hospitals to uninsured or Medicaid patients. The payments through Medicaid DSH are disbursed quarterly to the Medical Center. Net patient service revenues recognized from this program were \$1,287,478, \$1,028,111, and \$909,472 in 2019, 2018, and 2017, respectively.

Other significant items affecting net patient service revenues are the level of charity care and bad debts incurred by the Medical Center. These amounts are deducted from gross revenues along with third-party contractual adjustments to arrive at net patient service revenues. We are focused on identifying charity care which requires additional resources to document eligibility under the Medical Center's policies. For the years ended 2019, 2018, and 2017, the Medical Center's indigent care and provision for bad debts were as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Provision for bad debts	\$ 5,241,765	\$ 3,276,331	\$ 6,127,695
Indigent care	3,244,065	4,407,179	1,987,507
Uninsured discounts	<u>39,611</u>	<u>63,946</u>	<u>40,548</u>
	<u>\$ 8,525,441</u>	<u>\$ 7,747,456</u>	<u>\$ 8,155,750</u>

These amounts represent 6.0, 5.6, and 5.7 percent of gross patient service revenues for the respective years ended 2019, 2018, and 2017. These percentages are affected by the level of uninsured or underinsured patients seeking care in our facility.

Employee salaries and wages decreased by \$639,080, or 2.9 percent, and \$1,768,531, or 7.4 percent, during 2019 and 2018, respectively. The change in salaries is driven by two factors. The change in full-time equivalent employees (FTEs) and the average increase in employee hourly wages. The Medical Center employed an average of 341 FTEs during 2019, a decrease of 23 from 2018. FTEs for 2018 decreased by 24 from 2017. Total hours worked in 2019 were lower due to adjustments in staffing from having lower inpatient volumes, and, to a lesser extent, by implementation of an early retirement package for certain eligible employees which was offered late in 2018.

Employee benefit costs as a percentage of salary and wage expense was 23.8 percent, 24.2 percent, and 22.5 percent in 2019, 2018, and 2017, respectively. The changes in the employee benefits percentage are due primarily to the change in the cost of providing health insurance coverage for our employees.

Supplies and other expenses increased by \$375,045 in 2019, after decreasing by \$591,559 and \$354,040 in 2018 and 2017, respectively. The increase in 2019 is primarily due to the addition of the hospitalist program. The decreases during 2018 and 2017 correlate with the decreases in revenues.

Depreciation and interest expenses combined decreased by \$484,257 and \$70,379 in 2019 and 2018, respectively. The decrease in depreciation expense is due to more assets becoming fully depreciated in 2019 and the decrease in interest expense is due to the decrease in average outstanding debt in 2019 compared to 2018.

This financial report is designed to provide a general overview of the Medical Center'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 Neosho Memorial Regional Medical Center, 629 S. Plummer, Chanute, Kansas 66720.

Independent Auditor's Report

Board of Trustees
Neosho Memorial Regional Medical Center

We have audited the accompanying financial statements of Neosho Memorial Regional Medical Center, a component unit of Neosho County, Kansas, as of and for the years ended December 31, 2019 and 2018, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Neosho Memorial Regional Medical Center as of December 31, 2019 and 2018, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 financial statements, and other knowledge we obtained during our audit of the 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 Noel Nelson & Johnson LLC

Topeka, Kansas
May 8, 2020

Financial Statements

Neosho Memorial Regional Medical Center
Statements of Net Position
December 31,

Assets

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 12,690,953	\$ 14,460,474
Investments	192,428	
Assets limited as to use	999,627	989,935
Patient accounts receivable, net of estimated uncollectibles of \$5,135,357 in 2019 and \$2,565,478 in 2018	7,265,810	6,503,962
Inventories	1,015,460	976,336
Prepaid expenses	721,808	887,565
Other receivables	680,705	365,055
Estimated third-party payor settlements	<u>100,000</u>	<u>315,535</u>
Total current assets	<u>23,666,791</u>	<u>24,498,862</u>
Assets limited as to use		
Internally designated for capital acquisition	2,685,728	16
Under bond indenture agreements - held by trustee	999,627	989,935
Donor-imposed restrictions	25,430	33,446
Other receivables	<u>33,377</u>	<u>78,306</u>
	3,744,162	1,101,703
Less amount required to meet current obligations	<u>999,627</u>	<u>989,935</u>
	<u>2,744,535</u>	<u>111,768</u>
Capital assets, net	<u>31,533,713</u>	<u>34,826,430</u>
Total assets	<u>\$ 57,945,039</u>	<u>\$ 59,437,060</u>

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	<u>2019</u>	<u>2018</u>
Current liabilities		
Current maturities of long-term debt and capital leases	\$ 1,610,000	\$ 1,565,000
Accounts payable and accrued expenses	1,466,366	1,361,446
Salaries, wages, and payroll taxes payable	1,121,331	1,077,568
Accrued vacation pay	1,038,922	1,512,894
Interest payable	258,170	263,295
Estimated third-party payor settlements	<u>169,862</u>	<u>407,320</u>
Total current liabilities	<u>5,664,651</u>	<u>6,187,523</u>
Long-term liabilities		
Long-term debt and capital leases, net of current maturities	19,048,038	20,658,038
Refundable and nonrefundable fees	<u>890,340</u>	<u>807,659</u>
Total long-term liabilities	<u>19,938,378</u>	<u>21,465,697</u>
Total liabilities	<u>25,603,029</u>	<u>27,653,220</u>
Net position		
Invested in capital assets, net of related debt, excluding component units	10,051,214	11,724,283
Restricted for debt service	999,627	989,935
Component units	306,827	571,670
Unrestricted	<u>20,984,342</u>	<u>18,497,952</u>
Total net position	<u>32,342,010</u>	<u>31,783,840</u>
Total liabilities and net position	<u>\$ 57,945,039</u>	<u>\$ 59,437,060</u>

Neosho Memorial Regional Medical Center
Statements of Revenues, Expenses, and
Changes in Net Position
Year ended December 31,

	<u>2019</u>	<u>2018</u>
Operating revenues		
Net patient service revenue	\$ 50,165,645	\$ 49,017,272
Other	<u>678,488</u>	<u>717,407</u>
Total operating revenues	<u>50,844,133</u>	<u>49,734,679</u>
Operating expenses		
Salaries and wages	21,500,657	22,139,737
Employee benefits	5,126,302	5,354,803
Supplies and other expenses	20,427,909	20,052,864
Depreciation and amortization	<u>4,699,208</u>	<u>5,092,948</u>
Total operating expenses	<u>51,754,076</u>	<u>52,640,352</u>
Operating loss	<u>(909,943)</u>	<u>(2,905,673)</u>
Nonoperating revenues (expenses)		
Investment income	391,730	269,230
Interest expense	(784,759)	(875,276)
Ambulance subsidy	1,931,170	1,488,768
Noncapital grants and contributions	160,870	157,016
Other	<u>(230,898)</u>	<u>(111,590)</u>
Total nonoperating revenues (expenses)	<u>1,468,113</u>	<u>928,148</u>
Revenues over (under) expenses before capital grants and contributions	558,170	(1,977,525)
Capital grants and contributions	<u> </u>	<u>299,753</u>
Change in net position	<u>558,170</u>	<u>(1,677,772)</u>
Net position at beginning of year	<u>31,783,840</u>	<u>33,461,612</u>
Net position at end of year	<u>\$ 32,342,010</u>	<u>\$ 31,783,840</u>

The accompanying notes are an integral part of these statements.

Neosho Memorial Regional Medical Center
Statements of Cash Flows
Year ended December 31,

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 49,464,555	\$ 51,852,647
Payments to or on behalf of employees	(27,057,168)	(27,880,391)
Payments for supplies and services	(20,196,356)	(21,126,130)
Other receipts and payments	<u>709,888</u>	<u>686,332</u>
Net cash provided by operating activities	<u>2,920,919</u>	<u>3,532,458</u>
Cash flows from noncapital financing activities		
Ambulance subsidy	1,597,937	1,164,782
Noncapital grants and contributions	160,870	157,016
Other nonoperating expenses	<u>(236,598)</u>	<u>(111,590)</u>
Net cash provided by noncapital financing activities	<u>1,522,209</u>	<u>1,210,208</u>
Cash flows from capital and related financing activities		
Purchase of property and equipment	(1,406,997)	(1,661,319)
Proceeds from the sale of assets	6,100	
Interest paid on capital related debt	(789,884)	(849,742)
Proceeds from issuance of long-term debt		163,706
Principal payments on long-term debt obligations	(1,565,000)	(2,526,872)
Principal payments on line of credit		(136,504)
Capital grants and contributions	<u>44,929</u>	<u>550,755</u>
Net cash used for capital and related financing activities	<u>(3,710,852)</u>	<u>(4,459,976)</u>
Cash flows from investing activities		
Change in assets limited as to use	(1,676)	(548,253)
Changes in investments	(190,440)	
Investment income received	<u>376,031</u>	<u>267,693</u>
Net cash provided (used) by investing activities	<u>183,915</u>	<u>(280,560)</u>
Change in cash and cash equivalents	916,191	2,130
Cash and cash equivalents at beginning of year	<u>14,460,490</u>	<u>14,458,360</u>
Cash and cash equivalents at end of year	<u>\$ 15,376,681</u>	<u>\$ 14,460,490</u>

The accompanying notes are an integral part of these statements.

Neosho Memorial Regional Medical Center
Statements of Cash Flows - Continued
Year ended December 31,

	<u>2019</u>	<u>2018</u>
Reconciliation of cash and cash equivalents to statements of financial position		
Cash and cash equivalents in current assets	\$ 12,690,953	\$ 14,460,474
Cash internally designated by the board for capital asset acquisitions	<u>2,685,728</u>	<u>16</u>
	<u>\$ 15,376,681</u>	<u>\$ 14,460,490</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (909,943)	\$ (2,905,673)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	4,699,208	5,092,948
Loss on asset disposal	106	
Provision for bad debts	5,241,765	3,276,331
Change in assets and liabilities		
Accounts receivable	(6,003,613)	(2,075,427)
Estimated third-party payor settlements	(21,923)	1,512,212
Inventories	(39,124)	22,652
Prepaid expenses	165,757	(219,709)
Other current assets	31,294	(31,075)
Accounts payable and accrued expenses	104,920	(876,209)
Salaries and payroll taxes payable	43,763	(39,583)
Accrued vacation	(473,972)	(346,268)
Refundable and nonrefundable fees	<u>82,681</u>	<u>122,259</u>
Net cash provided by operating activities	<u>\$ 2,920,919</u>	<u>\$ 3,532,458</u>

The accompanying notes are an integral part of these statements.

Neosho Memorial Regional Medical Center
Notes to Financial Statements
December 31, 2019 and 2018

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

Neosho Memorial Regional Medical Center (the Medical Center) is owned by Neosho County, Kansas, and operated by the Board of Trustees of Neosho Memorial Regional Medical Center, a seven-member governing board appointed by the governing body of the County. The Medical Center, which was organized in 1950, is a not-for-profit general hospital located in Chanute, Kansas. The Medical Center can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Medical Center is a component unit of the County.

The Neosho Memorial Hospital Foundation, Inc. (NMHF), is a legally separate 501(c)(3) exempt private foundation operated by a separate board of directors and provides support exclusively to the Medical Center. The Foundation of Neosho Memorial Regional Medical Center, Inc. (Foundation of NMRMC), and The Green Living Foundation, Inc. (GLF), are also legally separate 501(c)(3) corporations with the Medical Center serving as the sole voting member of both the Foundation of NMRMC and GLF. The Foundations are operated exclusively for charitable purposes. The Medical Center includes the above Foundations as component units in the Medical Center's financial statements using the blended method. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

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

1. 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.

2. Basis of accounting

The financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities are recognized when the transaction occurs.

3. Cash and cash equivalents

The Medical Center considers all cash and invested cash to be cash equivalents, excluding any amounts included in assets limited as to use under bond indenture agreements held by trustee, assets limited as to use under donor-imposed restrictions, and items classified as investments by the Foundation.

4. Investments

Investments are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, are included in investment income.

5. Allowance for doubtful accounts

The Medical Center 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 Medical Center estimates this allowance based on the aging of its accounts receivable and applying specific reserve factors for each type of payor.

Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

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

6. Inventories

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

7. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under a bond indenture agreement; and assets whose use is restricted by donors. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

8. Capital assets

Capital assets, including assets recorded as capital leases, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with useful lives established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

9. Cost of borrowing

Interest costs (including amortization of bond premium), incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Costs incurred in connection with the issuance of long-term debt are expensed in the period incurred. Original issue premiums and discounts associated with the issuance of long-term debt are amortized using the interest method over the term of the related debt.

10. Accrued vacation pay

The Medical Center employees earn paid time off at varying rates depending on years of service. Paid time off benefits vest to the employee and are paid at the time of termination.

11. Net position

The net position of the Medical Center is classified into the following components. "Net position invested in capital assets net of related debt, excluding component units" consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital related assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by revenue bond indentures. "Unrestricted net position" is the remaining net position that does not meet the definition of "invested in capital assets net of related debt, excluding component units" or "restricted." Component units net position is related to the Foundations and are under the control of each entity's board.

Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

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

12. Operating revenues and expenses

The Medical Center'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 Medical Center'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 and costs associated with fundraising activities by the component units.

13. Net patient service revenue

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

14. Grants and contributions

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

15. Indigent care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as indigent care, they are not reported as revenue. The amount of indigent care charges foregone and the estimated cost of providing this care is disclosed in Note B.

16. Income taxes

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

17. Subsequent events

The Medical Center 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. See Footnote Q for subsequent events reported.

**Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note B - Reimbursement Programs

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated third-party payor settlements consist of the estimated 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 Medical Center is a critical access hospital for purposes of the Medicare program and is paid for most services rendered to Medicare beneficiaries under various cost reimbursement methodologies. Ambulance and physician services are prospectively paid based on their respective fee schedules. The Medical Center is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare administrative contractor. The Medical Center'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 Medical Center's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2016.

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 Medical Center receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. 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 - Services rendered to patients who are insured by Blue Cross-Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

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

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$ 142,407,952	\$ 137,986,092
Deductions from patient service revenue		
Third-party contractual adjustments	(84,373,346)	(81,826,772)
Medicaid DSH payments	1,287,478	1,028,111
Other discounts and allowances	(630,998)	(422,703)
Charity care	(3,244,065)	(4,407,179)
Uninsured discounts	(39,611)	(63,946)
Provision for bad debts	<u>(5,241,765)</u>	<u>(3,276,331)</u>
Net patient service revenue	<u>\$ 50,165,645</u>	<u>\$ 49,017,272</u>

The Medical Center estimates that the cost of providing charity care, based on overall cost to charge ratios obtained from the Medical Center's cost reports was \$1,153,000 and \$1,631,000 for 2019 and 2018, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 42 percent and 9 percent, respectively, of the Medical Center's net patient service revenue during 2019 and 43 percent and 7 percent, respectively, of the Medical Center's net patient service revenue during 2018. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note C - Capital Assets

Capital asset additions, retirements, and balances are as follows:

	Balance December 31, <u>2018</u>	Transfers and additions	<u>Retirements</u>	Balance December 31, <u>2019</u>
Land	\$ 589,306	\$ 7,350	\$ -	\$ 596,656
Land improvements	1,953,360	43,624		1,996,984
Buildings	32,154,612	139,978		32,294,590
Fixed equipment	20,191,546	191,226	1,167	20,381,605
Major movable equipment	<u>27,371,273</u>	<u>800,101</u>	<u>342,095</u>	<u>27,829,279</u>
Totals at historical cost	<u>82,260,097</u>	<u>1,182,279</u>	<u>343,262</u>	<u>83,099,114</u>
Less accumulated depreciation				
Land improvements	1,007,847	101,467		1,109,314
Buildings and fixed equipment	26,026,297	2,454,159	661	28,479,795
Major movable equipment	<u>20,468,103</u>	<u>2,143,582</u>	<u>336,295</u>	<u>22,275,390</u>
	34,757,850	(3,516,929)	6,306	31,234,615
Projects in progress and minor equipment	<u>68,580</u>	<u>230,518</u>		<u>299,098</u>
Capital assets, net	<u>\$ 34,826,430</u>	<u>\$ (3,286,411)</u>	<u>\$ 6,306</u>	<u>\$ 31,533,713</u>
	Balance December 31, <u>2017</u>	Transfers and additions	<u>Retirements</u>	Balance December 31, <u>2018</u>
Land	\$ 589,306	\$ -	\$ -	\$ 589,306
Land improvements	1,892,422	60,938		1,953,360
Buildings	31,927,327	227,285		32,154,612
Fixed equipment	20,094,190	97,356		20,191,546
Major movable equipment	<u>28,207,408</u>	<u>1,038,458</u>	<u>1,874,593</u>	<u>27,371,273</u>
Totals at historical cost	<u>82,710,653</u>	<u>1,424,037</u>	<u>1,874,593</u>	<u>82,260,097</u>
Less accumulated depreciation				
Land improvements	908,480	99,367		1,007,847
Buildings and fixed equipment	23,386,238	2,640,059		26,026,297
Major movable equipment	<u>19,989,173</u>	<u>2,353,523</u>	<u>1,874,593</u>	<u>20,468,103</u>
	38,426,762	(3,668,912)		34,757,850
Projects in progress and minor equipment	<u>272,449</u>	<u>(203,869)</u>		<u>68,580</u>
Capital assets, net	<u>\$ 38,699,211</u>	<u>\$ (3,872,781)</u>	<u>\$ -</u>	<u>\$ 34,826,430</u>

Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note D - Assets Limited as to Use and Investments

Internally designated

The Medical Center's Board of Trustees has designated certain investments to be used for future capital improvements. These assets may be used for other purposes by action of the Board of Trustees. These assets are held in an interest bearing checking account.

Under bond indenture agreement - held by trustee

Assets limited as to use by a bond indenture agreement are held by a trustee and are invested in cash or money market funds and are stated at fair value. These assets relate to the 2014 and the 2015 revenue bond issues and are set aside for the repayment of principal and interest on those bonds.

Donor imposed restrictions

Assets limited as to use by donor imposed restrictions are held by the Neosho Memorial Hospital Foundation, Inc., and consist of bank deposits in a money market savings account that will be transferred to the Medical Center for the purchase of capital assets.

Note E - Investments

Investments are stated at fair value and are summarized as follows:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 9,419	\$ -
Fixed income funds	53,462	
Equity funds	<u>129,547</u>	
	<u>\$ 192,428</u>	<u>\$ -</u>

Investment income consists of the following:

	<u>2019</u>	<u>2018</u>
Interest on patient accounts	\$ 204,412	\$ 179,734
Dividends and interest	177,269	89,496
Investment fees	(391)	
Realized and unrealized gains and losses	<u>10,440</u>	
	<u>\$ 391,730</u>	<u>\$ 269,230</u>

**Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note F - Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined according to a hierarchy that gives highest priority to use of observable inputs and lowest priority to use of unobservable inputs. These inputs are described as follows:

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Medical Center has the ability to access.

Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable, supported by little or no market activity, and are significant to the fair value measurement.

Fair value measurement 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 methodologies used by the Medical Center for assets measured at fair value on a recurring basis:

Money market mutual funds, fixed income funds, and equity funds are valued at unadjusted quoted prices for identical securities in active markets.

The following table sets forth, by level within the fair value hierarchy, the Medical Center's assets measured at fair value on a recurring basis.

	December 31, 2019			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 9,419	\$ -	\$ -	\$ 9,419
Fixed income funds	53,462			53,462
Equity funds	<u>129,547</u>			<u>129,547</u>
	<u>\$ 192,428</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 192,428</u>
	December 31, 2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ -	\$ -	\$ -	\$ -
Fixed income funds				
Equity funds				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note G - Long-term Debt and Capital Leases

Long-term debt and capital lease obligations are summarized as follows:

	Outstanding balance	
	2019	2018
3.35 - 4.80% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2014 A (Neosho Memorial Regional Medical Center); issued on June 26, 2014, in the original amount of \$8,800,000 term bonds due September 1, 2030, with mandatory annual redemptions beginning September 1, 2023	\$ 8,800,000	\$ 8,800,000
1.0 - 3.0% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2014 B (Neosho Memorial Regional Medical Center); issued on June 26, 2014, in the original amount of \$5,975,000 term bonds due serially through September 1, 2018, and term bonds due September 1, 2022, with mandatory annual redemptions beginning September 1, 2019	2,350,000	3,100,000
Neosho County, Kansas Hospital Revenue Bonds, Series 2015 (Neosho Memorial Regional Medical Center); issued on April 15, 2015, funds drawn as expended for projects, current interest rate at 3.35% with mandatory annual redemptions through September 1, 2030	9,508,038	10,323,038
	20,658,038	22,223,038
Less current maturities	(1,610,000)	(1,565,000)
Long-term obligations net of current portion	\$ 19,048,038	\$ 20,658,038

The following is a summary of changes in long-term debt and capital lease obligations:

	Capital lease obligations	Hospital revenue bonds	Total long-term obligations
Outstanding at January 1, 2018	\$ 996,872	\$ 23,589,332	\$ 24,586,204
Long-term debt incurred		163,706	163,706
Principal payments	(996,872)	(1,530,000)	(2,526,872)
Outstanding at December 31, 2018	-	22,223,038	22,223,038
Principal payments	-	(1,565,000)	(1,565,000)
Outstanding at December 31, 2019	\$ -	\$ 20,658,038	\$ 20,658,038

**Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note G - Long-term Debt and Capital Leases - Continued

On June 26, 2014, the County issued Hospital Refunding Revenue Bonds, Series 2014 A and B, in the principal amount of \$14,775,000, to refund the remaining portion of the Series 2006 A and B bonds and to pay costs related to issuance of the 2014 bonds.

On April 15, 2015, the County issued Hospital Revenue Bonds, Series 2015 (the 2015 bonds) in the principal amount not to exceed \$12,250,000 on behalf of the Medical Center pursuant to the supplemental bond trust indenture. The proceeds of the 2015 bonds are being drawn as needed to fund the (1) renovation and expansion of the current hospital facility, and (2) acquisition of certain equipment for the hospital facility.

Under the terms of the bond indentures, the Medical Center is required to maintain certain deposits with a trustee. Such deposits are for the repayment of principal and interest as they come due as well as for the maintenance of required bond reserve accounts. These amounts are included with assets limited as to use in the financial statements. The indenture agreement also includes certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, and level of fees and rates charged.

Scheduled annual debt service requirements for the Hospital Revenue Bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,610,000	\$ 747,207	\$ 2,357,207
2021	1,655,000	700,634	2,355,634
2022	1,705,000	650,229	2,355,229
2023	1,760,000	595,912	2,355,912
2024	1,820,000	536,952	2,356,952
2025 to 2029	10,145,000	1,596,675	11,741,675
2030	1,963,038	82,254	2,045,292
	<u>\$ 20,658,038</u>	<u>\$ 4,909,863</u>	<u>\$ 25,567,901</u>

Total interest costs are summarized as follows:

	<u>2019</u>	<u>2018</u>
Total interest incurred	<u>\$ 784,759</u>	<u>\$ 875,276</u>

Rental expense under operating leases totaled \$176,486 in 2019 and \$186,083 in 2018.

Note H - Line of Credit

The Green Living Foundation, Inc., had a line of credit arrangement with a local bank to finance construction of independent living units. At January 1, 2018, GLF had drawn \$136,504 under this arrangement. Interest on the line accrued at 3.54 percent per annum. The line of credit was fully paid off at December 31, 2018, and there were no drawings during the year ended December 31, 2019.

Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note I - Refundable and Nonrefundable Fees

The Green Living Foundation, Inc., has entered into contracts with residents to provide housing and other services under an independent living arrangement for the Foundation Homes (Community). Residents are required to pay a Lifetime Deposit in order to occupy a unit. The Lifetime Deposit is 72.5 percent to 75 percent refundable and the remaining 25 to 27.5 percent is nonrefundable. The nonrefundable fee is amortized over the remaining life expectancy of the resident. The Lifetime Deposit is held by GLF and used for the purpose of construction, financing, operational costs, capital repairs, improvements, future refunds for the Community, and for any reserve funds. Refundable fees are summarized as follows:

	<u>2019</u>	<u>2018</u>
Beginning of period	\$ 691,942	\$ 563,245
Advance payments received	264,077	128,697
Payment of refundable liability	<u>(263,448)</u>	<u> </u>
	<u>\$ 692,571</u>	<u>\$ 691,942</u>

Nonrefundable fees are summarized as follows:

	<u>2019</u>	<u>2018</u>
Beginning of period	\$ 115,717	\$ 122,155
Payments received	94,026	43,149
Amortization	<u>(11,974)</u>	<u>(49,587)</u>
	<u>\$ 197,769</u>	<u>\$ 115,717</u>

Note J - Related Party Transactions

The Medical Center contracts for management services, services of certain management personnel, and other services with Quorum Health Resources (QHR). Under the agreement, QHR is responsible for daily management and administration of the Medical Center, with ultimate control over the assets and operations of the Medical Center retained by the Medical Center's board. Amounts paid to QHR during 2019 and 2018, for management services were \$303,706 and \$298,764, respectively. The Medical Center also reimbursed QHR for salaries, employee benefits, and expenses of the chief executive officer and the chief financial officer.

The County provides annual support to the Medical Center for the operation of the ambulance department. The County funded this support in 2019 through sales tax receipts and in 2018 through a combination of a property tax mill levy and sales tax receipts. The Medical Center recognized total revenues of \$1,931,170 in 2019 and \$1,488,768 in 2018 for ambulance operations. In addition, during 2018, the County transferred an ambulance vehicle to the Medical Center at a cost of \$248,000.

Note K - Retirement Plan

The Medical Center sponsors a defined contribution plan (Plan) as authorized by Kansas statutes. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of those contributions.

**Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note K - Retirement Plan - Continued

The Plan covers substantially all employees of the Medical Center. Employees are eligible to make contributions immediately to the Plan. To become eligible for contributions made by the Medical Center, the employee must have a year of service, defined as 1,000 hours. Employee contributions vest immediately and contributions made by the Medical Center vest over six years.

The Medical Center provides for a discretionary match which is determined annually by the Board of Trustees. For the years ended December 31, 2019 and 2018, the Medical Center matched 100 percent of each eligible employee's contribution up to 4 percent of the participant's compensation.

The payroll for employees covered by the Plan for the years ended December 31, 2019 and 2018, was \$16,125,654 and \$15,828,534, respectively. The total payroll was \$21,617,407 in 2019 and \$22,199,256 in 2018. Total contributions to the Plan in 2019 were \$1,756,728 which consisted of \$1,079,163 of employee contributions and \$677,565 of employer matching contributions. Total contributions to the Plan in 2018 were \$1,614,943 which consisted of \$1,014,011 of employee contributions and \$600,932 of employer matching contributions.

No pension provision changes occurred during the year that affected the required contributions to be made by the Medical Center or its employees. The Plan held no securities of the Medical Center or other related parties during the year or as of the close of the year.

Total employer contributions were 4.2 and 3.8 percent of covered payroll in 2019 and 2018. Total employee contributions were 6.7 and 6.4 percent of covered payroll in 2019 and 2018.

Note L - Deposits and Investments with Financial Institutions

Kansas statutes authorize the Medical Center 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. Also, statutes 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 deposits with financial institutions was \$15,399,696 and the bank balance was \$15,569,960 at December 31, 2019. The bank deposits are categorized as follows:

	<u>Medical Center</u>	<u>Component units</u>	<u>Total</u>
Amount insured by the F.D.I.C.	\$ 1,500,000	\$ 151,461	\$ 1,651,461
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 Medical Center's name)	<u>13,918,499</u>	<u> </u>	<u>13,918,499</u>
	<u>\$ 15,418,499</u>	<u>\$ 151,461</u>	<u>\$ 15,569,960</u>

**Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note M - Commitments and Contingencies

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Medical Center 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 Medical Center purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

The Medical Center has been named in a lawsuit in which a judgment was rendered against the Medical Center in the amount of \$86,000 which has been accrued as a liability. The lawsuit also involved a judgment against an officer of the Medical Center for damages. The exact exposure to the Medical Center is currently not known, but the estimated range of exposure is depending on insurance coverage.

The Medical Center has outstanding commitments for ongoing operation and maintenance of an accounting and electronic health record system as follows:

2020	\$ 586,220
2021	586,220
2022	<u>146,576</u>
	<u>\$ 1,319,016</u>

Note N - Concentration of Credit Risk

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

	<u>2019</u>	<u>2018</u>
Medicare	27 %	30 %
Medicaid	8	10
Blue Cross	16	21
Commercial and other	19	19
Uninsured	<u>30</u>	<u>20</u>
	<u>100 %</u>	<u>100 %</u>

Note O - Medical Malpractice Insurance

The Medical Center is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Medical Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Medical Center 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 \$2,400,000. The policy provided by the independent insurance carrier provides for

Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note O - Medical Malpractice Insurance - Continued

umbrella liability in excess of the underlying limits set forth above in the amount of \$5,000,000 per occurrence with an aggregate amount in any policy year of \$5,000,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2020, for the policy period from January 1, 2020 to January 1, 2021. Management believes that any claims asserted for incidents occurring through December 31, 2019, would be settled within the limits of insurance coverage.

Note P - Condensed Combining Information

Condensed financial data for the Medical Center and its blended component units as of and for the year ended December 31, 2019, are presented in the following tables:

	Statement of Net Position - 2019			
	<u>Medical Center</u>	<u>Component units</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Current assets	\$ 23,352,893	\$ 313,898	\$ -	\$ 23,666,791
Capital assets	30,709,251	824,462		31,533,713
Other assets	<u>2,685,728</u>	<u>58,807</u>		<u>2,744,535</u>
Total assets	<u>\$ 56,747,872</u>	<u>\$ 1,197,167</u>	<u>\$ -</u>	<u>\$ 57,945,039</u>
Liabilities				
Current liabilities	\$ 5,664,651	\$ -	\$ -	\$ 5,664,651
Noncurrent liabilities	<u>19,048,038</u>	<u>890,340</u>		<u>19,938,378</u>
Total liabilities	<u>24,712,689</u>	<u>890,340</u>	<u>-</u>	<u>25,603,029</u>
Net position				
Invested in capital assets net of related debt, excluding component units	10,051,214			10,051,214
Restricted for debt service	999,627			999,627
Restricted for component units		306,827		306,827
Unrestricted	<u>20,984,342</u>			<u>20,984,342</u>
Total net position	<u>32,035,183</u>	<u>306,827</u>	<u>-</u>	<u>32,342,010</u>
Total liabilities and net position	<u>\$ 56,747,872</u>	<u>\$ 1,197,167</u>	<u>\$ -</u>	<u>\$ 57,945,039</u>

Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note P - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2019			
	Medical Center	Component units	Eliminations	Combined
Operating revenues				
Net patient service revenue	\$ 50,165,645	\$ -	\$ -	\$ 50,165,645
Other	<u>649,952</u>	<u>28,536</u>	<u>-</u>	<u>678,488</u>
Total operating revenues	<u>50,815,597</u>	<u>28,536</u>	<u>-</u>	<u>50,844,133</u>
Operating expenses				
Salaries and wages	21,500,657			21,500,657
Employee benefits	5,126,302			5,126,302
Supplies and other expenses	20,385,577	42,332		20,427,909
Depreciation and amortization	<u>4,644,066</u>	<u>55,142</u>	<u>-</u>	<u>4,699,208</u>
Total operating expenses	<u>51,656,602</u>	<u>97,474</u>	<u>-</u>	<u>51,754,076</u>
Operating loss	<u>(841,005)</u>	<u>(68,938)</u>	<u>-</u>	<u>(909,943)</u>
Nonoperating revenues (expenses)				
Investment income	377,518	14,212		391,730
Interest expense	(784,759)			(784,759)
Ambulance subsidy	1,931,170			1,931,170
Noncapital grants and contributions	55,951	104,919		160,870
Other	<u>5,699</u>	<u>(315,036)</u>	<u>78,439</u>	<u>(230,898)</u>
Total nonoperating revenues (expenses)	<u>1,585,579</u>	<u>(195,905)</u>	<u>78,439</u>	<u>1,468,113</u>
Revenues over (under) expenses before capital grants and contributions	744,574	(264,843)	78,439	558,170
Capital grants and contributions	<u>78,439</u>	<u>-</u>	<u>(78,439)</u>	<u>-</u>
Change in net position	823,013	(264,843)	-	558,170
Net position beginning of year	<u>31,212,170</u>	<u>571,670</u>	<u>-</u>	<u>31,783,840</u>
Net position end of year	<u>\$ 32,035,183</u>	<u>\$ 306,827</u>	<u>\$ -</u>	<u>\$ 32,342,010</u>

Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note P - Condensed Combining Information - Continued

	Statement of Cash Flows - 2019			
	Medical Center	Component units	Eliminations	Combined
Net cash provided (used) by				
Operating activities	\$ 2,850,728	\$ 70,191	\$ -	\$ 2,920,919
Noncapital financing activities	1,653,888	(210,117)	78,438	1,522,209
Capital and related financing activities	(3,676,743)	44,329	(78,438)	(3,710,852)
Investing activities	354,115	(170,200)		183,915
Net change in cash and cash equivalents	1,181,988	(265,797)	-	916,191
Cash and cash equivalents at beginning of year	14,073,223	387,267		14,460,490
Cash and cash equivalents at end of year	<u>\$ 15,255,211</u>	<u>\$ 121,470</u>	<u>\$ -</u>	<u>\$ 15,376,681</u>

Condensed financial data for the Medical Center and its blended component units as of and for the year ended December 31, 2018, are presented in the following tables:

	Statement of Net Position - 2018			
	Medical Center	Component units	Eliminations	Combined
Assets				
Current assets	\$ 24,110,395	\$ 388,467	\$ -	\$ 24,498,862
Capital assets	33,947,320	879,110		34,826,430
Other assets	16	111,752		111,768
Total assets	<u>\$ 58,057,731</u>	<u>\$ 1,379,329</u>	<u>\$ -</u>	<u>\$ 59,437,060</u>
Liabilities				
Current liabilities	\$ 6,187,523	\$ -	\$ -	\$ 6,187,523
Noncurrent liabilities	20,658,038	807,659		21,465,697
Total liabilities	<u>26,845,561</u>	<u>807,659</u>	<u>-</u>	<u>27,653,220</u>
Net position				
Invested in capital assets net of related debt, excluding component units	11,724,283			11,724,283
Restricted for debt service	989,935			989,935
Restricted for component units		571,670		571,670
Unrestricted	18,497,952			18,497,952
Total net position	<u>31,212,170</u>	<u>571,670</u>	<u>-</u>	<u>31,783,840</u>
Total liabilities and net position	<u>\$ 58,057,731</u>	<u>\$ 1,379,329</u>	<u>\$ -</u>	<u>\$ 59,437,060</u>

Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note P - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2018			
	Medical Center	Component units	Eliminations	Combined
Operating revenues				
Net patient service revenue	\$ 49,017,272	\$ -	\$ -	\$ 49,017,272
Other	<u>647,930</u>	<u>69,477</u>		<u>717,407</u>
Total operating revenues	<u>49,665,202</u>	<u>69,477</u>	<u>-</u>	<u>49,734,679</u>
Operating expenses				
Salaries and wages	22,139,737			22,139,737
Employee benefits	5,354,803			5,354,803
Supplies and other expenses	20,021,945	30,919		20,052,864
Depreciation and amortization	<u>5,037,631</u>	<u>55,317</u>		<u>5,092,948</u>
Total operating expenses	<u>52,554,116</u>	<u>86,236</u>	<u>-</u>	<u>52,640,352</u>
Operating loss	<u>(2,888,914)</u>	<u>(16,759)</u>	<u>-</u>	<u>(2,905,673)</u>
Nonoperating revenues (expenses)				
Investment income	268,597	633		269,230
Interest expense	(873,528)	(1,748)		(875,276)
Ambulance subsidy	1,488,768			1,488,768
Noncapital grants and contributions	500	156,516		157,016
Other	<u>1,124</u>	<u>(591,789)</u>	<u>479,075</u>	<u>(111,590)</u>
Total nonoperating revenues (expenses)	<u>885,461</u>	<u>(436,388)</u>	<u>479,075</u>	<u>928,148</u>
Expenses over revenues before capital grants and contributions	(2,003,453)	(453,147)	479,075	(1,977,525)
Capital grants and contributions	<u>562,363</u>	<u>216,465</u>	<u>(479,075)</u>	<u>299,753</u>
Change in net position	(1,441,090)	(236,682)	-	(1,677,772)
Net position beginning of year	<u>32,653,260</u>	<u>808,352</u>		<u>33,461,612</u>
Net position end of year	<u>\$ 31,212,170</u>	<u>\$ 571,670</u>	<u>\$ -</u>	<u>\$ 31,783,840</u>

Neosho Memorial Regional Medical Center
Notes to Financial Statements - Continued
December 31, 2019 and 2018

Note P - Condensed Combining Information - Continued

	Statement of Cash Flows - 2018			
	Medical Center	Component units	Eliminations	Combined
Net cash provided (used) by				
Operating activities	\$ 3,372,621	\$ 159,837	\$ -	\$ 3,532,458
Noncapital financing activities	1,166,406	(435,273)	479,075	1,210,208
Capital and related financing activities	(4,265,738)	284,837	(479,075)	(4,459,976)
Investing activities	(325,600)	45,040		(280,560)
	(52,311)	54,441	-	2,130
Net change in cash and cash equivalents	(52,311)	54,441	-	2,130
Cash and cash equivalents at beginning of year	14,125,534	332,826		14,458,360
Cash and cash equivalents at end of year	\$ 14,073,223	\$ 387,267	\$ -	\$ 14,460,490

Note Q - Subsequent Events

Subsequent to year-end, the Medical Center has been negatively impacted by the effects of the worldwide coronavirus pandemic. The Medical Center is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. The government has initiated multiple grants and programs in which the Medical Center has received cash assistance. As of the date of issuance of these financial statements, the full impact to the Medical Center's financial position is not known.