Independent Auditor's Report and Financial Statements

Neosho Memorial Regional Medical Center

December 31, 2024 and 2023

Contents

	Page
Management's Discussion and Analysis	1
Independent Auditor's Report	6
Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	12

Neosho Memorial Regional Medical Center
Management's Discussion and Analysis
Years ended December 31, 2024 and 2023

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, 2024 and 2023. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Medical Center's net position decreased by $4,605,458, or 12.3 percent, and increased by $2,385,040, or 6.8 percent, in 2024 and 2023, respectively.

The Medical Center reported operating losses of $7,154,758, $5,969,294, and $5,623,413 in 2024, 2023, and 2022, 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, 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?"

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

	2024	2023	2022
Assets			
Current assets	$ 27,237,549	$ 30,133,206	$ 31,114,781
Capital assets, net	33,193,981	36,998,718	33,014,760
Other noncurrent assets	271,527	1,227,507	3,909,458
Total assets	60,703,057	68,359,431	68,038,999
Current liabilities	21,468,782	24,230,370	8,726,971
Long-term liabilities	5,398,927	6,208,440	24,117,477
Total liabilities	26,867,709	30,438,810	32,844,448
Deferred inflows of resources	991,974	471,789	130,759
Total net position	$ 32,843,374	$ 37,448,832	$ 35,063,792

Cash and accounts receivable are the two most significant components of current assets. Total days cash expenses on hand is 68 days in 2024**,** as compared to 86 days in 2023, and 108 days in 2022. Cash flow from operations declined by $1,690,841 in 2024 and by $2,116,033 in 2023 which is shown in the statement of cash flows. Cash is affected by the change in net position of the Medical Center along with the timing of collection of accounts receivable and other changes in balance sheet accounts. Net accounts receivable at December 31, 2024, 2023, and 2022, were $8,962,317, $9,074,851, and $7,375,012, representing 60, 59, and 50 days of net patient service revenue in net accounts receivable. Assets limited as to use designated for capital acquisitions decreased by $84,641 in 2024 as compared with 2023, and decreased by $521,546 between 2023 and 2022. The accompanying cash flow statement provides additional details as to the change in cash balances for 2024 and 2023.

The Medical Center's additions to capital assets, including lease and subscription assets, were $1,476,180 in 2024, as compared with $9,034,934 in 2023, and $4,981,759 in 2022. Net capital assets are also impacted by annual depreciation provisions.

The Medical Center was not in compliance with the debt service coverage ratio covenant in 2024 or in 2023. The Medical Center was also not in compliance with the days cash on hand ratio covenant in 2024. The bond indenture outlines what the Medical Center will need to do in such an event, which includes providing notifications, engaging a consultant, and maintaining an adequate debt service coverage ratio and days cash on hand ratio for future financial statements. However, until these events occur, the Medical Center is considered to be in default and so the revenue bonds are presented with current liabilities for 2024 and 2023.

Net position, or equity, decreased by 6.3 percent from 2022 to 2024. This change is discussed below in more detail.

Operating results and changes in net position

The Medical Center's net position decreased by $4,605,458 or 12.3 percent in 2024, and increased by $2,385,040 or 6.8 percent in 2023, as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2024	2023	2022
Operating revenues			
Net patient service revenue	$ 54,949,561	$ 56,090,350	$ 53,800,960
Other operating revenue	1,204,053	799,009	757,062
Total operating revenues	56,153,614	56,889,359	54,558,022
Operating expenses			
Salaries and benefits	35,206,086	35,647,586	33,196,420
Supplies and other	22,821,369	22,161,303	21,967,044
Depreciation and amortization	5,280,917	5,049,764	5,017,971
Total operating expenses	63,308,372	62,858,653	60,181,435
Operating loss	(7,154,758)	(5,969,294)	(5,623,413)
Nonoperating revenues	2,468,459	2,448,069	3,319,154
Capital grants and contributions	80,841	5,906,265	2,509,511
Change in net position	$ (4,605,458)	$ 2,385,040	$ 205,252

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 was $7,154,758 in 2024, as compared to an operating loss of $5,969,294 in 2023 and $5,623,415 in 2022.

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 decreased by 2,9 percent in 2024, as compared to a 4.3 percent increase in 2023. Our outpatient service revenues as a percentage of total revenues increased during 2024, 2023, and 2022. In 2024, we experienced a decrease in inpatient routine, ICU, and swing-bed days of 821 days or 20.5 percent. In 2023, we experienced a decrease in inpatient routine, ICU, and swing-bed days of 807 days or 16.8 percent. As a critical access hospital, we are limited to having 25 inpatients admitted to our Medical Center at any one time.

The Medical Center generated 34 and 35 percent of its net revenue in 2024 and 2023, respectively, from the Medicare program. Medicare Advantage plans accounted for 15 and 17 percent of net revenue in 2024 and 2023, respectively. The Medicaid program generated 13 and 11 percent of net revenue in 2024 and 2023, respectively.

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 $2,204,985, $1,667,360, and $1,517,415 in 2024, 2023, and 2022, respectively.

Other significant items affecting net patient service revenues are the level of indigent 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 indigent care which requires additional resources to document eligibility under the Medical Center's policies. For the years ended 2024, 2023, and 2022, the Medical Center's indigent care and provision for bad debts were $11,174,079, $11,548,326, and $10,638,085. These amounts represent 7.2, 7.2, and 6.7 percent of gross patient service revenues for the respective years ended 2024, 2023, and 2022. These percentages are affected by the level of uninsured or underinsured patients seeking care in our facility. The Medical Center is also experiencing and increase in denials and write-offs due to various billing issues. Other discounts and allowances for 2024, 2023, and 2022 were $3,171,297, $1,173,073, and $1,438,387 representing 2.0, 0.7, and 0.9 of a percent of gross revenues.

Employee salaries and wages increased by $121,475 or 0.4 percent, and $1,700,412 or 6.3 percent during 2024 and 2023, respectively. Although there was a slight reduction in FTEs, the small increase in salaries between 2023 and 2024 is primarily driven by wage increases. The increase in salaries between 2022 and 2023 is largely driven by the change in FTEs and the change in employee hourly wages. The Medical Center employed an average of 360 FTEs during 2024, a decrease of 11 from 2023. For 2023, FTEs increased by 9 from 2022.

Employee benefit costs as a percentage of salary and wage expense were 22.9 percent, 25.0 percent, and 23.7 percent in 2024, 2023, and 2022, 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 $660,066 in 2024, after increasing by $194,259 in 2023, and increasing by $307,343 in 2022.

Depreciation and interest expenses combined increased by $155,067 in 2024 and decreased by $167,874 in 2023.

Nonoperating revenues in 2024, 2023, and 2022 include $134,887, $5,262,002 and $1,017,977 in grant revenues that were recognized from the CARES Act, respectively. These funds were provided by the federal and state governments to assist with the impact of the coronavirus pandemic. The Medical Center is also the recipient of other federal awards which include reimbursement for both capital and noncapital purposes. Another significant amount included in nonoperating revenues is the ambulance subsidy that the Medical Center receives from a sales tax. This subsidy is used to offset the unreimbursed costs associated with operating the ambulance service for the County.

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.

Wendling Noe Nelson & Johnson LLC
Certified Public Accountants and Business Advisors

Ashley R. Davis, CPA
Heather R. Eichem, CPA
Brian J. Florea, CPA
Eric L. Otting, CPA
Cameron L. Werth, CPA

Adam C. Crouch, CPA
Tyler R. Crow, CPA
Connie J. Holthaus, CPA
Stephanie D. Kennedy, CPA
Abby J. Noll, CPA

Independent Auditor's Report

Board of Trustees
Neosho Memorial Regional Medical Center

Opinion

We have audited the accompanying financial statements of the business-type activities of Neosho Memorial Regional Medical Center (the Medical Center) as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Medical Center'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 Medical Center as of December 31, 2024 and 2023, 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 audit 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 Medical Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note A17 to the financial statements, in 2024 the Medical Center adopted Governmental Accounting Standards Board (GASB) No. 100, *Accounting Changes and Error Corrections*, and Statement No. 101, *Compensated Absences.* Our opinion is not modified with respect to these matters.

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 Medical Center'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 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.

623 SW 10th Avenue, Suite 300, Topeka, Kansas 66612-1679 · (785)233-4226 · (888)272-9665 · FAX: (785)233-6830
www.wnnjcpa.com · EMAIL: wnnj@wnnjcpa.com

In performing an audit in accordance with generally accepted auditing standards, 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 Medical Center'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 Medical Center'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 audits, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5 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
May 2, 2025

Financial Statements

Neosho Memorial Regional Medical Center
Statements of Net Position
December 31, 2024 and 2023

Assets

	2024	2023
Current assets		
Cash and cash equivalents	$ 10,752,828	$ 13,451,596
Investments	209,563	196,890
Assets limited as to use	913,823	1,032,043
Patient accounts receivable, net of estimated uncollectibles of $6,946,328 in 2024 and $5,633,340 in 2023	8,962,317	9,074,851
Inventories	1,153,919	1,045,968
Prepaid expenses	1,013,006	1,408,384
Other receivables	2,730,326	2,203,757
Grants and contributions receivable		687,237
Estimated third-party payor settlements	1,501,767	1,032,480
Total current assets	27,237,549	30,133,206
Assets limited as to use		
Internally designated for capital acquisition	36,684	121,325
Under bond indenture agreements - held by trustee	913,823	1,814,493
Other restricted cash	234,843	280,065
	1,185,350	2,215,883
Less amount required to meet current obligations	913,823	1,032,043
	271,527	1,183,840
Noncurrent prepaid expenses	-	43,667
Capital assets		
Capital assets not being depreciated	1,490,927	8,177,994
Depreciable capital assets, net of accumulated depreciation	28,498,993	24,896,236
Leased assets, net of accumulated amortization	843,050	960,790
Subscription assets, net of accumulated amortization	2,361,011	2,963,698
Total capital assets	33,193,981	36,998,718
Total assets	$ 60,703,057	$ 68,359,431

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2024	2023
Current liabilities		
Current maturities of long-term debt	$ 15,360,000	$ 17,400,000
Current maturities of lease liabilities	333,850	471,079
Current maturities of subscription liabilities	561,097	577,088
Accounts payable and accrued expenses	1,523,325	1,916,451
Salaries, wages, and payroll taxes payable	960,568	1,125,551
Accrued compensated absences	2,365,990	2,210,288
Estimated health insurance claims payable	201,716	338,300
Interest payable	104,042	114,778
Estimated third-party payor settlements	58,194	76,835
Total current liabilities	21,468,782	24,230,370
Long-term liabilities		
Lease liabilities, net of current maturities	201,943	535,793
Subscription liabilities, net of current maturities	1,947,042	2,508,139
Accrued compensated absences, net of current portion	1,172,000	1,071,000
Refundable and nonrefundable fees	2,077,942	2,093,508
Total long-term liabilities	5,398,927	6,208,440
Total liabilities	26,867,709	30,438,810
Deferred inflows of resources		
Deferred sales tax revenue	991,974	471,789
Total deferred inflows of resources	991,974	471,789
Net position		
Invested in capital assets, net of related debt, excluding component units	12,870,648	13,885,901
Restricted for debt service	913,823	1,032,043
Component units	207,012	115,426
Unrestricted	18,851,891	22,415,462
Total net position	32,843,374	37,448,832
Total liabilities, deferred inflows of resources, and net position	$ 60,703,057	$ 68,359,431

Neosho Memorial Regional Medical Center
Statements of Revenues, Expenses, and
Changes in Net Position
Years ended December 31, 2024 and 2023

	2024	2023
Operating revenues		
Net patient service revenue	$ 54,949,561	$ 56,090,350
Other	1,204,053	799,009
Total operating revenues	56,153,614	56,889,359
Operating expenses		
Salaries and wages	28,648,654	28,527,179
Employee benefits	6,557,432	7,120,407
Supplies and other expenses	22,821,369	22,161,303
Depreciation and amortization	5,280,917	5,049,764
Total operating expenses	63,308,372	62,858,653
Operating loss	(7,154,758)	(5,969,294)
Nonoperating revenues (expenses)		
Investment income	636,050	739,856
Interest expense	(510,634)	(586,720)
Ambulance subsidy	2,120,004	2,120,000
Noncapital grants and contributions	391,000	267,334
Noncapital COVID-19 grants and contributions	54,046	91,337
Other	(222,007)	(183,738)
Total nonoperating revenues (expenses)	2,468,459	2,448,069
Expenses over revenues before capital grants and contributions	(4,686,299)	(3,521,225)
Capital grants and contributions		735,600
COVID-19 capital grants and contributions	80,841	5,170,665
Change in net position	(4,605,458)	2,385,040
Net position at beginning of year		
As previously reported	38,976,832	36,548,792
Prior period adjustment for change in accounting principle	(1,528,000)	(1,485,000)
As restated	37,448,832	35,063,792
Net position at end of year	$ 32,843,374	$ 37,448,832

The accompanying notes are an integral part of these statements.

Neosho Memorial Regional Medical Center
Statements of Cash Flows
Years ended December 31, 2024 and 2023

	2024	2023
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 54,558,601	$ 55,540,938
Payments to or on behalf of employees	(35,250,951)	(35,382,016)
Payments for supplies and services	(22,883,401)	(22,401,207)
Other receipts and payments	1,884,910	126,252
Net cash used by operating activities	(1,690,841)	(2,116,033)
Cash flows from noncapital financing activities		
Ambulance subsidy	2,120,000	2,120,000
Noncapital grants and contributions	445,046	358,671
Other nonoperating expenses	(222,007)	(183,738)
Net cash provided by noncapital financing activities	2,343,039	2,294,933
Cash flows from capital and related financing activities		
Purchase of capital assets	(1,476,180)	(8,481,804)
Principal payments on long-term debt	(2,040,000)	(2,010,000)
Interest payments on long-term debt	(344,333)	(373,512)
Principal payments on lease liabilities	(471,079)	(453,271)
Interest paid on lease liabilities	(33,490)	(51,299)
Principal payments on subscription liabilities	(577,088)	(549,000)
Interest paid on subscription liabilities	(143,547)	(171,635)
Proceeds from sale of capital assets		2,543
Capital grants and contributions	80,841	5,771,265
Net cash used for capital and related financing activities	(5,004,876)	(6,316,713)
Cash flows from investing activities		
Change in assets limited as to use	900,670	2,355,985
Changes in investments	(6,712)	(17,944)
Investment income received	630,089	772,355
Net cash provided by investing activities	1,524,047	3,110,396
Change in cash and cash equivalents	(2,828,631)	(3,027,417)
Cash and cash equivalents at beginning of year	13,852,986	16,880,403
Cash and cash equivalents at end of year	$ 11,024,355	$ 13,852,986

The accompanying notes are an integral part of these statements.

Neosho Memorial Regional Medical Center
Statements of Cash Flows - Continued
Years ended December 31, 2024 and 2023

	2024	2023
Reconciliation of cash and cash equivalents to statements of financial position		
Cash and cash equivalents in current assets	$ 10,752,828	$ 13,451,596
Cash internally designated by the board for capital asset acquisitions	36,684	121,325
Other restricted cash	234,843	280,065
	$ 11,024,355	$ 13,852,986
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (7,154,758)	$ (5,969,294)
Adjustments to reconcile operating loss to net cash used by operating activities		
Gain on disposal of assets		(1,330)
Depreciation and amortization	5,280,917	5,049,764
Provision for bad debts	8,959,153	4,159,438
Change in assets and liabilities		
Accounts receivable	(8,846,619)	(5,859,277)
Estimated third-party payor settlements	(487,928)	644,296
Inventories	(107,951)	95,517
Prepaid expenses	439,045	261,716
Other current assets	680,857	(671,427)
Accounts payable and accrued expenses	(393,126)	(597,137)
Salaries and payroll taxes payable	(164,983)	135,902
Accrued compensated absences	256,702	168,483
Estimated health insurance claims payable	(136,584)	(38,815)
Refundable and nonrefundable fees	(15,566)	506,131
Net cash used by operating activities	$ (1,690,841)	$ (2,116,033)

The accompanying notes are an integral part of these statements.

Neosho Memorial Regional Medical Center
Notes to Financial Statements
December 31, 2024 and 2023

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 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 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.

6. Inventories

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

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

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; assets whose use is restricted by donors and other sources. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

8. Capital assets

Capital assets are stated at historical 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.

Leased assets are recognized at the lease commencement date and represent the Medical Center'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 liability.

Subscription assets are recognized at the subscription commencement date and represent the Medical Center's right to use an underlying asset for the subscription term. Subscription assets are measured at the initial value of the subscription liability at the commencement of the subscription term, less any incentives received from the vendor at or before the commencement of the subscription, plus any initial direct costs necessary to place the subscription asset into service. Subscription assets are amortized over the subscription term using the straight-line method or the same method amortizing the liability.

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 expensed as interest in the period incurred. 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 compensated absences

The Medical Center provides access to paid time off to assure each employee has the needed physical and mental well-being to provide quality patient care and related activities. 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, provided certain requirements are met. The Medical Center provides conversion privileges which allow eligible employees to sell-back paid time off to the Medical Center to satisfy medical debts, as a donation to the Foundation, or as a lump-sum cash distribution to the employee net of applicable federal and state withholdings.

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

In the event of an employee's extended illness or injury, the Medical Center also offers extended illness bank (EIB) benefits to eligible employees based on hours worked. EIB amounts vest to the employee, but are not paid out if an employee terminates employment at the Medical Center. In the event of a status change from full-time or part-time to pro re nata, accrued EIB benefits are forfeited. Full-time employees are required to utilize paid time off hours equivalent to one scheduled shift per illness or injury prior to accessing their extended illness bank; a part-time employee can utilize his or her extended illness benefits bank once paid time off equal to 15 percent of their average hours worked per pay period is utilized. The Medical Center estimates a liability for vested EIB based on historical usage by employees.

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 unit's net position is related to the Foundations and are under the control of each entity's board.

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.

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

16. Income taxes

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

17. Adoption of accounting pronouncements

Effective January 1, 2024, the Medical Center adopted Government Accounting Standards Board (GASB) Statement No. 100, *Accounting Changes and Error Corrections.* GASB 100 provides enhanced accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information. It also addresses the impact of accounting changes and error corrections on required and other supplementary information. GASB 100 requires disclosures for accounting changes and error corrections to include descriptive information about accounting changes and error corrections and information about the quantitative effects on beginning balances from accounting changes and error corrections.

Effective January 1, 2024, the Medical Center adopted GASB Statement No. 101, *Compensated Absences.* GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services the employee already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, an entity should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. GASB 101 requires a retrospective application as of the beginning of the earliest period presented (i.e., January 1, 2023). Comparative prior year financial statements have been adjusted to apply this standard retrospectively, which resulted in a beginning net position adjustment of $1,485,000. See Note U for amounts restated.

18. Subsequent events

Subsequent events have been evaluated through the date of the independent auditor's report, which is the date the financial statements were available to be issued. See Note V for subsequent events reported.

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

Note B - Reimbursement Programs - Continued

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, 2022.

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:

	2024	2023
Gross patient service revenue	$ 155,406,926	$ 160,031,423
Deductions from patient service revenue		
Third-party contractual adjustments	(88,316,974)	(92,887,034)
Medicaid DSH payments	2,204,985	1,667,360
Other discounts and allowances	(3,171,297)	(1,173,073)
Charity care	(2,112,794)	(7,342,749)
Uninsured discounts	(102,132)	(46,139)
Provision for bad debts	(8,959,153)	(4,159,438)
Net patient service revenue	$ 54,949,561	$ 56,090,350

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 $813,000 and $2,783,000 for 2024 and 2023, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 34 percent and 13 percent, respectively, of the Medical Center's net patient service revenue during 2024, and 35 percent and 11 percent, respectively, of the Medical Center's net patient service revenue during 2023. 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.

Note C - Capital Assets

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

	Balance December 31, 2023	Transfers and additions	Retirements	Balance December 31, 2024
Capital assets not being depreciated				
Land	$ 706,321	$ 769,543	$ -	$ 1,475,864
Projects in progress	7,471,673	(7,456,610)		15,063
Total capital assets not being depreciated	8,177,994	(6,687,067)	-	1,490,927
Capital assets being depreciated				
Land improvements	1,987,593	977,127	7,600	2,957,120
Buildings	32,411,722	5,266,994	2,152	37,676,564
Fixed equipment	21,088,658	151,977	1,551,144	19,689,491
Major movable equipment	25,204,797	1,767,151	841,679	26,130,269
Total capital assets being depreciated	80,692,770	8,163,249	2,402,575	86,453,444
Less accumulated depreciation for				
Land improvements	1,476,857	111,804	7,600	1,581,061
Buildings and fixed equipment	35,463,105	2,356,669	1,553,295	36,266,479
Major movable equipment	18,856,572	2,092,019	841,680	20,106,911
Total accumulated depreciation	55,796,534	4,560,492	2,402,575	57,954,451
Total capital assets being depreciated, net	24,896,236	3,602,757	-	28,498,993
Lease assets being amortized				
Leased equipment	2,291,141	-	-	2,291,141
Less accumulated amortization for				
Leased equipment	1,330,351	117,740	-	1,448,091
Total leased assets being amortized	960,790	(117,740)	-	843,050
Subscription assets being amortized				
Subscription assets	4,169,072	-	-	4,169,072
Less accumulated amortization for				
Subscription assets	1,205,374	602,687	-	1,808,061
Total subscription assets being amortized	2,963,698	(602,687)	-	2,361,011
Total capital assets, net	$ 36,998,718	$ (3,804,737)	$ -	$ 33,193,981

Note C - Capital Assets - Continued

	Balance December 31, 2022	Transfers and additions	Retirements	Balance December 31, 2023
Capital assets not being depreciated				
Land	$ 706,321	$ -	$ -	$ 706,321
Projects in progress	1,510,511	5,961,162		7,471,673
Total capital assets not being depreciated	2,216,832	5,961,162	-	8,177,994
Capital assets being depreciated				
Land improvements	1,987,593			1,987,593
Buildings	32,133,405	278,317		32,411,722
Fixed equipment	20,976,735	447,638	335,715	21,088,658
Major movable equipment	24,942,582	2,347,817	2,085,602	25,204,797
Total capital assets being depreciated	80,040,315	3,073,772	2,421,317	80,692,770
Less accumulated depreciation for				
Land improvements	1,377,824	99,033		1,476,857
Buildings and fixed equipment	33,458,346	2,339,261	334,502	35,463,105
Major movable equipment	19,391,434	1,550,740	2,085,602	18,856,572
Total accumulated depreciation	54,227,604	3,989,034	2,420,104	55,796,534
Total capital assets being depreciated, net	25,812,711	(915,262)	1,213	24,896,236
Lease assets being amortized				
Leased equipment	2,291,141	-	-	2,291,141
Less accumulated amortization for				
Leased equipment	872,309	458,042	-	1,330,351
Total leased assets being amortized	1,418,832	(458,042)	-	960,790
Subscription assets being amortized				
Subscription assets	4,169,072	-	-	4,169,072
Less accumulated amortization for				
Subscription assets	602,687	602,687	-	1,205,374
Total subscription assets being amortized	3,566,385	(602,687)	-	2,963,698
Total capital assets, net	$ 33,014,760	$ 3,985,171	$ 1,213	$ 36,998,718

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 revenue bond issues and are set aside for the following purposes:

	2024	2023
Principal and interest repayment	$ 913,823	$ 1,032,043
Capital acquisitions		782,450
	$ 913,823	$ 1,814,493

Donor-imposed restrictions

Assets limited as to use by donor-imposed restrictions are held by the Foundation of Neosho Memorial Regional Medical Center, Inc., and consist of promises to give financial assets for Medical Center capital projects.

Other restricted cash

Other restricted cash includes funds set aside by the Medical Center for purposes of administering a grant and funds set aside for purposes of an accounts receivable recourse program administered by a bank.

Note E - Investments

Investments held by theFoundation of NMRMC are stated at fair value and are summarized as follows:

	2024	2023
Money market funds	$ 26,749	$ 21,359
Fixed income funds	68,534	62,694
Equity funds	114,280	112,837
	$ 209,563	$ 196,890

The Foundation of NMRMC established an unrestricted Endowment Fund to provide long-term income for the Foundation of NMRMC, the income from which is to support the mission of the Foundation of NMRMC. Contributions to the Endowment Fund are generally considered unrestricted unless the donor stipulates a restricted gift as evidenced by a written agreement that is in accordance with the Foundation of NMRMC's gift acceptance polity. The Board may appropriate for expenditure the investment earnings from the Endowment Fund provided that the investment earnings from contributions have been held for a minimum of two years from the original contribution.

Note E - Investments - Continued

The Foundation of NMRMC manages Endowment assets pursuant to the Kansas Uniform Prudent Management of Institutional Funds Act set forth at KSA 58-3611, et. seq.

At December 31, 2024, all of the Foundation of NMRMC's endowment funds were unrestricted board-designated. A summary of the Foundation of NMRMC's endowment funds is as follows:

Balance at December 31, 2023	$ -
Contributions	77,546
Net investment return	(1,518)
Balance at December 31, 2024	$ 76,028

Investment income consists of the following:

	2024	2023
Interest on patient accounts	$ 26,147	$ 46,981
Dividends and interest	600,106	676,411
Investment fees	(2,141)	(1,853)
Net realized and unrealized gains	11,938	18,317
	$ 636,050	$ 739,856

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.

Note F - Fair Value - Continued

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, 2024			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 26,749	$ -	$ -	$ 26,749
Fixed income funds	68,534			68,534
Equity funds	114,280			114,280
	$ 209,563	$ -	$ -	$ 209,563

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 21,359	$ -	$ -	$ 21,359
Fixed income funds	62,694			62,694
Equity funds	112,837			112,837
	$ 196,890	$ -	$ -	$ 196,890

Note G - Employee Health Insurance

The Medical Center sponsors a partially self-funded employee health insurance plan. The Medical Center has reinsured a portion of its risk for health insurance claims of its employees. The reinsurance agreement generally covers claims totaling over $125,000 for each covered individual on an annual basis. The reinsurance arrangement also covers aggregate annual claims of the plan in excess of an amount determined in relation to the number of individuals participating in the plan during the year. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Medical Center has retained an agent to process and settle claims.

The following is a summary of the activity under this arrangement for the years ended December 31:

	2024	2023
Estimated net health insurance claims payable at beginning of year	$ 338,300	$ 377,115
Provision for employer's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	3,102,587	3,617,328
Participant contributions	1,397,865	1,261,654
Payments made for claims and related expenses	(4,637,036)	(4,917,797)
Estimated net health insurance claims payable at end of year	$ 201,716	$ 338,300

Note H - Accrued Compensated Absences

The Medical Center offers compensated absences to eligible employees in the form of paid vacation and extended illness bank (EIB). The Medical Center will pay out unused vacation benefits upon termination provided certain requirements are met. Employees vest in the EIB benefits, but any unused EIB benefits will not be paid out upon termination. The Medical Center accrues a liability for the vested vacation leave and an estimate of the vested EIB benefits to be used by employees.

Accrued compensated absences consist of the following:

	2024	2023
Estimated accrued compensated absences	$ 3,537,990	$ 3,281,288
Less current portion	2,365,990	2,210,288
Noncurrent portion of accrued compensated absences	$ 1,172,000	$ 1,071,000

The following is a summary of the changes in accrued compensated absences:

Accrued compensated absences at January 1, 2023	$ 3,112,805
Net change	168,483
Accrued compensated absences at December 31, 2023	3,281,288
Net change	256,702
Accrued compensated absences at December 31, 2024	$ 3,537,990

Note I - COVID-19 Revenue

The Medical Center was the recipient of COVID-19 grants during the years 2024 and 2023, some of which required matching funds which were used to construct a building on the Medical Center's campus. Total COVID-19 grants recognized during 2024 and 2023 were $134,887 and $5,262,002, respectively.

Note J - Long-term Debt

Long-term debt consists of the following:

	2024	2023
1.45 - 2.20% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2021A (Neosho Memorial Regional Medical Center); issued on October 27, 2021, in the original amount of $9,870,000 term bonds due serially through September 1, 2030, with mandatory annual redemptions	$ 6,830,000	$ 7,905,000
1.25 - 2.40% Neosho County, Kansas Hospital Revenue Bonds, Series 2021B (Neosho Memorial Regional Medical Center); issued on December 23, 2021, in the original amount of $3,585,000 term bonds due serially through September 1, 2031, with mandatory annual redemptions	3,260,000	3,360,000
1.25 - 2.25% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2022 (Neosho Memorial Regional Medical Center); issued on January 12, 2022, in the original amount of $8,045,000 term bonds due serially through September 1, 2030, with mandatory annual redemptions	5,270,000	6,135,000
	15,360,000	17,400,000
Less current maturities of long-term debt	(15,360,000)	(17,400,000)
Long-term debt, net of current maturities	$ -	$ -

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

Outstanding at January 1, 2023	$ 19,410,000
Principal payments	(2,010,000)
Outstanding at December 31, 2023	17,400,000
Principal payments	(2,040,000)
Outstanding at December 31, 2024	$ 15,360,000

Note J - Long-term Debt - Continued

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 were 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. These bonds were refunded in 2022.

On October 27, 2021, the County issued Hospital Refunding Revenue Bonds, Series 2021A in the principal amount of $9,870,000 to refund the Series 2014A and B bonds and to pay the costs related to issuance of the Series 2021A bonds. The refunding transaction decreased the total amount of future debt service requirements by $975,322 and provided a net present value benefit of $885,028.

On December 23, 2021, the County issued Hospital Revenue Bonds, Series 2021B in the principal amount of $3,585,000 on behalf of the Medical Center pursuant to the supplementary bond trust indenture. The proceeds of the Series 2021B bonds are to fund future projects of the Medical Center.

On January 12, 2022, the County issued Hospital Refunding Revenue Bonds, Series 2022, in the principal amount of $8,045,000 to refund the Series 2015 bonds and to pay the costs related to issuance of the Series 2022 bonds.

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, level of fees and rates charged, and financial covenants. The minimum required debt service coverage ratio is 1.25 and the minimum days cash on hand is 70 days. The Medical Center was below 1.0 on the debt service coverage ratio as of December 1, 2024 and 2023, and was below 70 days as of December 31, 2024, which is a default and can trigger an event of default. Due to these items, the revenue bonds have been classified as current at December 31, 2024 and 2023.

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

	Principal	Interest	Total
2025	$ 2,075,000	$ 312,125	$ 2,387,125
2026	2,110,000	276,850	2,386,850
2027	2,145,000	239,373	2,384,373
2028	2,190,000	198,610	2,388,610
2029	2,230,000	154,240	2,384,240
2030 - 2031	4,610,000	162,745	4,772,745
	$ 15,360,000	$ 1,343,943	$ 16,703,943

Note J - Long-term Debt - Continued

Total interest costs are summarized as follows:

	2024	2023
Revenue bonds	$ 333,597	$ 363,786
Lease liabilities	33,490	51,299
Subscription liabilities	143,547	171,635
	$ 510,634	$ 586,720

Note K - Lease Liabilities

The Medical Center leases certain equipment. Payments are based on each lease agreement. The Medical Center's leases do not contain variable lease payments or residual value guarantees. The following is a summary of lease liabilities as of December 31:

	2024	2023
Equipment lease liability; implied interest rate of 3.50%; payable in monthly installments of $30,970 through June 2025	$ 214,286	$ 571,620
Equipment lease liability; implied interest rate of 5.00%; payable in monthly installments of $11,077 through July 2027	321,507	435,252
	535,793	1,006,872
Less current maturities of lease liabilities	(333,850)	(471,079)
Noncurrent portion	$ 201,943	$ 535,793

The following is a summary of changes in lease liabilities:

Outstanding at January 1, 2023	$ 1,460,143
Principal payments	(453,271)
Outstanding at December 31, 2023	1,006,872
Principal payments	(471,079)
Outstanding at December 31, 2024	$ 535,793

Note K - Lease Liabilities - Continued

Scheduled future lease liability payments are as follows:

	Principal	Interest	Total
2024	$ 333,849	$ 15,867	$ 349,716
2025	125,681	7,243	132,924
2026	76,263	1,276	77,539
	$ 535,793	$ 24,386	$ 560,179

Rental expense for all leases consisted of the following:

	2024	2023
Amortization of leased assets	$ 458,042	$ 458,042
Interest on lease liabilities	33,490	51,299
Short-term leases	94,841	113,698
	$ 586,373	$ 623,039

Note L - Subscription Liabilities

The Medical Center's SBITAs primarily relate to subscription software for its patient accounting and electronic medical records system and supporting modules. Payments are based on each underlying contract and vary between monthly, quarterly, semi-annual, and annual payments. In certain situations, the vendor is allowed to increase the subscription payment annually. Differences between the original payment schedules and the current payment schedules are considered variable consideration. The variable consideration was not significant for the years ended December 31, 2024 and 2023. The following is a summary of subscription liabilities as of December 31:

	2024	2023
Subscription liabilities; implied interest rate of 5.00%; annual payments ranging from $63,780 to $565,824, with terms ranging from August 2025 - May 2029	$ 2,508,139	$ 3,085,227
Less current maturities of lease liabilities	(561,097)	(577,088)
Noncurrent portion	$ 1,947,042	$ 2,508,139

Note L - Subscription Liabilities - Continued

The following is a summary of changes in subscription liabilities:

Outstanding at January 1, 2023	$ 3,634,227
Principal payments	(549,000)
Outstanding at December 31, 2023	3,085,227
Principal payments	(577,088)
Outstanding at December 31, 2024	$ 2,508,139

Scheduled future subscription liability payments are as follows:

	Principal	Interest	Total
2024	$ 561,097	$ 114,023	$ 675,120
2025	543,138	86,466	629,604
2026	570,926	58,678	629,604
2027	600,136	29,468	629,604
2028	232,842	2,918	235,759
	$ 2,508,139	$ 291,553	$ 2,799,691

Rental expense for all subscription assets and liabilities consisted of the following:

	2024	2023
Amortization of subscription assets	$ 602,687	$ 602,687
Interest on subscription liabilities	143,547	171,635
	$ 746,234	$ 774,322

Note M - 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:

	2024	2023
Beginning of period	$ 1,672,891	$ 1,268,806
Repayments of refundable liability	(199,999)	
Payments received	203,283	404,085
Total refundable fees	$ 1,676,175	$ 1,672,891

Nonrefundable fees are summarized as follows:

	2024	2023
Beginning of period	$ 420,617	$ 318,571
Payments received	67,761	134,695
Amortization	(86,611)	(32,649)
Total nonrefundable fees	$ 401,767	$ 420,617

Note N - Related-party Transactions

The Medical Center contracts for management services, services of certain management personnel, and other services with Ovation Healthcare. Under the agreement, Ovation Healthcare 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 Ovation Healthcare during 2024 and 2023, for management services were $404,582 and $400,772, respectively. The Medical Center also reimbursed Ovation Healthcare for salaries, employee benefits, and expenses of the chief executive officer and the chief financial officer. During 2020, the Medical Center entered into a new contract with Ovation Healthcare that resulted in a prepayment of a portion of management fees to be amortized over a 60-month period, which will reduce future monthly management fee payments through August 31, 2025. The current portion of this payment is included with prepaid expenses and the noncurrent portion is included in noncurrent prepaid expenses on the statements of financial position. See Note V for the change in management company subsequent to year-end.

The County provides annual support to the Medical Center for the operation of the ambulance department. The County funded this support through sales tax receipts. The Medical Center recognized total revenues of $2,120,004 in 2024 and $2,120,000 in 2023 for ambulance operations. At December 31, 2024 and 2023, the Medical Center had recorded a receivable from the County of $2,457,652 and $1,937,463 related to ambulance sales tax receipts. The receivable is estimated based on the sales taxes collected by the County that exceeds the amount the County has appropriated to the Medical Center through its budgeting process.

Note O - 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.

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, 2024 and 2023**,** 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, 2024 and 2023, was $21,613,655 and $21,253,126, respectively. The total payroll was $28,009,454 in 2024 and $27,815,038 in 2023. Total contributions to the Plan in 2024 were $2,254,166, which consisted of $1,452,706 of employee contributions and $801,460 of employer matching contributions. Total contributions to the Plan in 2023 were $2,197,326, which consisted of $1,432,594 of employee contributions and $764,732 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 3.7 and 3.6 percent of covered payroll in 2024 and 2023. Total employee contributions were 6.7 percent of covered payroll in both 2024 and 2023.

Note P - 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 $11,021,840, and the bank balance was $11,234,150 at December 31, 2024. The bank deposits are categorized as follows:

	Medical Center	Component units	Total
Amount insured by the F.D.I.C.	$ 1,617,276	$ 155,014	$ 1,772,290
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) or covered by a $1,000,000 letter of credit	9,411,755		9,411,755
Amounts unsecured (noncompliance with Kansas statutes)	50,105		50,105
	$ 11,079,136	$ 155,014	$ 11,234,150

Note Q - 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.

Note R - 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:

	2024	2023
Medicare	19 %	17 %
Medicaid	7	8
Blue Cross	11	12
Commercial and other	42	41
Uninsured	21	22
	100 %	100 %

Note S - 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 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, 2025, for the policy period from January 1, 2025 to January 1, 2026. Management believes that any claims asserted for incidents occurring through December 31, 2024, would be settled within the limits of insurance coverage.

Note T - Condensed Combining Information

Condensed financial data for the Medical Center and its blended component units as of and for the year ended December 31, 2024, are presented in the following tables:

	Statement of Net Position - 2024			
	Medical Center	Component units	Eliminations	Combined
Assets				
Current assets	$ 26,864,246	$ 458,337	$ (85,034)	$ 27,237,549
Capital assets	31,274,580	1,919,401		33,193,981
Other assets	271,527			271,527
Total assets	$ 58,410,353	$ 2,377,738	$ (85,034)	$ 60,703,057
Liabilities				
Current liabilities	$ 21,461,032	$ 92,784	$ (85,034)	$ 21,468,782
Noncurrent liabilities	3,320,985	2,077,942		5,398,927
Total liabilities	24,782,017	2,170,726	(85,034)	26,867,709
Deferred inflows of resources	991,974	-	-	991,974
Net position				
Invested in capital assets net of related debt, excluding component units	12,870,648			12,870,648
Restricted for debt service	913,823			913,823
Restricted for component units		207,012		207,012
Unrestricted	18,851,891			18,851,891
Total net position	32,636,362	207,012	-	32,843,374
Total liabilities, deferred inflows of resources, and net position	$ 58,410,353	$ 2,377,738	$ (85,034)	$ 60,703,057

Note T - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2024			
	Medical Center	Component units	Eliminations	Combined
Operating revenues				
Net patient service revenue	$ 54,949,561	$ -	$ -	$ 54,949,561
Other	1,072,202	131,851		1,204,053
Total operating revenues	56,021,763	131,851	-	56,153,614
Operating expenses				
Salaries and wages	28,648,654			28,648,654
Employee benefits	6,557,432			6,557,432
Supplies and other expenses	22,744,139	77,230		22,821,369
Depreciation and amortization	5,177,477	103,440		5,280,917
Total operating expenses	63,127,702	180,670	-	63,308,372
Operating loss	(7,105,939)	(48,819)	-	(7,154,758)
Nonoperating revenues (expenses)				
Investment income	615,772	20,278		636,050
Interest expense	(510,634)			(510,634)
Ambulance subsidy	2,120,004			2,120,004
Noncapital grants and contributions	48,866	342,134		391,000
COVID-19 noncapital grants and contributions	54,046			54,046
Other		(382,848)	160,841	(222,007)
Total nonoperating revenues (expenses)	2,328,054	(20,436)	160,841	2,468,459
Expenses over revenues before capital grants and contributions	(4,777,885)	(69,255)	160,841	(4,686,299)
Capital grants and contributions		80,000	(80,000)	
COVID-19 capital grants and contributions	80,841	80,841	(80,841)	80,841
Change in net position	(4,697,044)	91,586	-	(4,605,458)
Net position beginning of year				
As previously reported	38,861,406	115,426		38,976,832
Prior period adjustment for change in accounting principle	(1,528,000)			(1,528,000)
As restated	37,333,406	115,426	-	37,448,832
Net position end of year	$ 32,636,362	$ 207,012	$ -	$ 32,843,374

Note T - Condensed Combining Information - Continued

	Statement of Cash Flows - 2024			
	Medical Center	Component units	Eliminations	Combined
Net cash provided (used) by				
Operating activities	$ (1,737,016)	$ 127,016	$ (80,841)	$ (1,690,841)
Noncapital financing activities	2,222,912	(40,714)	160,841	2,343,039
Capital and related financing activities	(4,832,072)	(92,804)	(80,000)	(5,004,876)
Investing activities	1,516,442	7,605		1,524,047
Net change in cash and cash equivalents	(2,829,734)	1,103	-	(2,828,631)
Cash and cash equivalents at beginning of year	13,690,349	162,637		13,852,986
Cash and cash equivalents at end of year	$ 10,860,615	$ 163,740	$ -	$ 11,024,355

Note T - Condensed Combining Information - Continued

Condensed financial data for the Medical Center and its blended component units as of and for the year ended December 31, 2023, are presented in the following tables:

	Statement of Net Position - 2023			
	Medical Center	Component units	Eliminations	Combined
Assets				
Current assets	$ 29,773,679	$ 688,873	$ (329,346)	$ 30,133,206
Capital assets	35,148,681	1,850,037		36,998,718
Other assets	1,227,507			1,227,507
Total assets	$ 66,149,867	$ 2,538,910	$ (329,346)	$ 68,359,431
Liabilities				
Current liabilities	$ 24,229,740	$ 329,976	$ (329,346)	$ 24,230,370
Noncurrent liabilities	4,114,932	2,093,508		6,208,440
Total liabilities	28,344,672	2,423,484	(329,346)	30,438,810
Deferred inflows of resources	471,789	-	-	471,789
Net position				
Invested in capital assets net of related debt, excluding component units	13,885,901			13,885,901
Restricted for debt service	1,032,043			1,032,043
Restricted for component units		115,426		115,426
Unrestricted	22,415,462			22,415,462
Total net position	37,333,406	115,426	-	37,448,832
Total liabilities, deferred inflows of resources, and net position	$ 66,149,867	$ 2,538,910	$ (329,346)	$ 68,359,431

Note T - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2023			
	Medical Center	Component units	Eliminations	Combined
Operating revenues				
Net patient service revenue	$ 56,090,350	$ -	$ -	$ 56,090,350
Other	725,410	73,599		799,009
Total operating revenues	56,815,760	73,599	-	56,889,359
Operating expenses				
Salaries and wages	28,527,179			28,527,179
Employee benefits	7,120,407			7,120,407
Supplies and other expenses	22,101,473	59,830		22,161,303
Depreciation and amortization	4,966,054	83,710		5,049,764
Total operating expenses	62,715,113	143,540	-	62,858,653
Operating loss	(5,899,353)	(69,941)	-	(5,969,294)
Nonoperating revenues (expenses)				
Investment income	710,862	28,994		739,856
Interest expense	(586,720)			(586,720)
Ambulance subsidy	2,120,000			2,120,000
Noncapital grants and contributions	196,422	115,103	(44,191)	267,334
COVID-19 noncapital grants and contributions	91,337			91,337
Other		(1,810,579)	1,626,841	(183,738)
Total nonoperating revenues (expenses)	2,531,901	(1,666,482)	1,582,650	2,448,069
Expenses over revenues before capital grants and contributions	(3,367,452)	(1,736,423)	1,582,650	(3,521,225)
Capital grants and contributions	751,867	1,566,383	(1,582,650)	735,600
COVID-19 capital grants and contributions	5,170,665			5,170,665
Change in net position	2,555,080	(170,040)	-	2,385,040
Net position beginning of year				
As previously reported	36,263,326	285,466		36,548,792
Prior period adjustment for change in accounting principle	(1,485,000)			(1,485,000)
As restated	34,778,326	285,466	-	35,063,792
Net position end of year	$ 37,333,406	$ 115,426	$ -	$ 37,448,832

Note T - Condensed Combining Information - Continued

	Statement of Cash Flows - 2023			
	Medical Center	Component units	Eliminations	Combined
Net cash provided (used) by				
Operating activities	$ (2,635,233)	$ 519,200	$ -	$ (2,116,033)
Noncapital financing activities	2,407,759	(1,695,476)	1,582,650	2,294,933
Capital and related financing activities	(5,631,684)	897,621	(1,582,650)	(6,316,713)
Investing activities	3,045,279	65,117		3,110,396
Net change in cash and cash equivalents	(2,813,879)	(213,538)	-	(3,027,417)
Cash and cash equivalents at beginning of year	16,504,228	376,175		16,880,403
Cash and cash equivalents at end of year	$ 13,690,349	$ 162,637	$ -	$ 13,852,986

Note U - Adoption of New Accounting Standard

The Medical Center adopted GASB Statement No. 101, *Compensated Absences* (GASB 101) as of January 1, 2024. The following changes were made to the 2023 amounts in adoption of GASB 101:

	Amount as previously reported	Adoption of accounting standard	Amount as restated
Statement of Net Position			
Liabilities, Deferred Inflows of Resources, and Net Position			
Accrued compensated absences	$ 1,753,288	$ 457,000	$ 2,210,288
Total current liabilities	23,773,370	457,000	24,230,370
Accrued compensated absences, net of current portion		1,071,000	1,071,000
Total long-term liabilities	5,137,440	1,071,000	6,208,440
Total liabilities	28,910,810	1,528,000	30,438,810
Net position, unrestricted	23,943,462	(1,528,000)	22,415,462
Total net position	38,976,832	(1,528,000)	37,448,832
Statement of Revenues, Expenses, and Changes in Net Position			
Operating expenses			
Salaries and wages	28,484,179	43,000	28,527,179
Total operating expenses	62,815,653	43,000	62,858,653
Operating loss	(5,926,294)	(43,000)	(5,969,294)
Expenses over revenues before capital grants and contributions	(3,478,225)	(43,000)	(3,521,225)
Change in net position	2,428,040	(43,000)	2,385,040
Statement of Cash Flows			
Reconciliation of operating loss to net cash used by operating activities			
Operating loss	(5,926,294)	(43,000)	(5,969,294)
Changes in assets and liabilities			
Accrued compensated absences	125,483	43,000	168,483

Note V - 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.

Subsequent to year-end, the Medical Center terminated its management agreement with Ovation Healthcare and entered into a contract with Community Hospital Corporation to provide management services.