Independent Auditor's Report and Financial Statements

Neosho Memorial Regional Medical Center

December 31, 2023 and 2022

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Neosho Memorial Regional Medical Center
Management's Discussion and Analysis
Years ended December 31, 2023 and 2022

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

Financial highlights

The Medical Center's net position increased by $2,428,040 and $205,252, or 6.6 percent and 0.6 percent in 2023 and 2022, respectively.

The Medical Center reported operating losses of $5,926,294, $5,623,413, and $4,454,934 in 2023, 2022, and 2021, 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

	2023	2022	2021
Assets			
Current assets	$ 30,133,206	$ 31,114,781	$ 35,971,396
Capital assets, net	36,998,718	33,014,760	28,882,191
Other noncurrent assets	1,227,507	3,909,458	6,764,630
Total assets	68,359,431	68,038,999	71,618,217
Current liabilities	23,773,370	8,279,971	14,029,847
Long-term liabilities	5,137,440	23,079,477	21,106,022
Total liabilities	28,910,810	31,359,448	35,135,869
Deferred inflows of resources	471,789	130,759	138,808
Total net position	$ 38,976,832	$ 36,548,792	$ 36,343,540

Beginning in March 2020, the Medical Center, along with all health care providers in the United States, was impacted by the worldwide coronavirus pandemic. Patient volumes and related revenues for the Medical Center's services were disrupted. The Medical Center's community served was also impacted and the Medical Center experienced an increase in expenses related to treating coronavirus patients and overall inflation. In response, the Coronavirus Aid, Relief, and Economic Security Act (CARES) and subsequent legislation has provided funding during these uncertain times. The Medical Center was approved for a Paycheck Protection Program (PPP) loan and received several grants from Health and Human Services (HHS) to prevent, prepare for, and respond to the pandemic. In addition, the Medical Center also received advance payments from Medicare. Total assets and liabilities increased in 2020 as a result of these funding mechanisms. The revenues and expenses associated with the various COVID-19 support programs implemented as a result of the pandemic were fully expended by December 31, 2022.

Cash and accounts receivable are the two most significant components of current assets. Total days cash expenses on hand is 86 days in 2023**,** as compared to 108 days in 2022, and 164 days in 2021. Cash from operations declined by $2,116,033 in 2023 and $6,094,773 in 2022 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, 2023, 2022, and 2021, were $9,074,851, $7,375,012, and $8,904,041, representing 59, 50, and 61 days of net patient service revenue in net accounts receivable. Assets limited as to use designated for capital acquisitions decreased by $521,546 in 2023 as compared with 2022, and decreased by $2,346,669 between 2022 and 2021. The accompanying cash flow statement provides additional details as to the change in cash balances for 2023 and 2022.

The Medical Center's additions to capital assets, including lease and subscription assets, were $9,034,934 in 2023, as compared with $4,981,759 in 2022, and $2,659,570 in 2021. 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 2023. 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 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.

Net position or equity, increased by 8.1 percent from 2021 to 2023. This change is discussed below in more detail.

Operating results and changes in net position

The Medical Center's net position increased by $2,428,040 or 6.6 percent and $205,252 or 0.6 percent in 2023 and 2022**,** respectively, as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2023	2022	2021
Operating revenues			
Net patient service revenue	$ 56,090,350	$ 53,800,960	$ 53,078,652
Other operating revenue	799,009	757,062	679,953
Total operating revenues	56,889,359	54,558,022	53,758,605
Operating expenses			
Salaries and benefits	35,604,586	33,196,420	32,039,973
Supplies and other	22,161,303	21,967,044	21,659,701
Depreciation and amortization	5,049,764	5,017,971	4,513,865
Total operating expenses	62,815,653	60,181,435	58,213,539
Operating loss	(5,926,294)	(5,623,413)	(4,454,934)
Nonoperating revenues	2,448,069	3,319,154	8,350,023
Capital grants and contributions	5,906,265	2,509,511	300,000
Change in net position	$ 2,428,040	$ 205,252	$ 4,195,089

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 $5,926,294 in 2023, as compared to an operating loss of $5,623,413 in 2022. The operating loss was $4,454,934 in 2021. The larger deficits shown are partially due to the coronavirus pandemic, as well as rising costs of salaries, benefits, and supplies and other expenses.

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 4.3 percent in 2023, as compared to a 1.4 percent increase in 2022. Our outpatient service revenues as a percentage of total revenues increased during 2023 and 2022, after decreasing in 2021, largely due to increased inpatient volumes from the coronavirus pandemic during 2021. In 2023, we experienced a decrease in inpatient routine, ICU, and swing-bed days of 807 days or 16.8 percent. In 2022, we experienced a decrease in inpatient routine, ICU, and swing-bed days of 492 days or 9.2 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 35 and 41 percent of its net revenue in 2023 and 2022 from the Medicare program. The Medicaid program generated 11 percent of net revenue in 2023 and 2022, 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 $1,667,360, $1,517,415, and $1,415,756 in 2023, 2022, and 2021, 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 2023, 2022, and 2021, the Medical Center's indigent care and provision for bad debts were $11,548,326, $10,638,085, and $10,705,193. These amounts represent 7.2, 6.7, and 6.8 percent of gross patient service revenues for the respective years ended 2023, 2022, and 2021. These percentages are affected by the level of uninsured or underinsured patients seeking care in our facility.

Employee salaries and wages increased by $1,657,412 or 6.2 percent, and $475,491 or 1.8 percent during 2023 and 2022, respectively. The change in salaries is largely driven by the change in FTEs and the change in employee hourly wages. The Medical Center employed an average of 371 FTEs during 2023, an increase of 9 from 2022. For 2022, FTEs decreased by 4 from 2021.

Employee benefit costs as a percentage of salary and wage expense were 25.0 percent, 23.7 percent, and 21.6 percent in 2023, 2022, and 2021, 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 $194,259 in 2023, after increasing by $307,343 in 2022, and decreasing by $58,825 in 2021.

Depreciation and interest expenses combined decreased by $167,874 in 2023 and increased by $255,671 in 2022, respectively. The decrease is primarily due to the decrease in interest expense, which relates to the lower interest costs on the refunded revenue bonds.

Nonoperating revenues in 2023, 2022, and 2021 include $5,262,002, $1,017,977 and $2,481,129 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. The Medical Center also received forgiveness of its SBA PPP loan in 2021 which amounted to $4,392,951. 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
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Independent Auditor's Report

Board of Trustees
Neosho Memorial Regional Medical Center

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Neosho Memorial Regional Medical Center (the Medical Center), a component unit of Neosho County, Kansas, as of and for the years ended December 31, 2023 and 2022, 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 financial position of the Medical Center as of December 31, 2023 and 2022, and the 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 Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the Kansas Municipal Audit and Accounting Guide. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 opinions.

Emphasis of Matter

As discussed in Note A17 to the financial statements, in 2023 the Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements.* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 and *Government Auditing Standards* will always detect a material misstatement when it exists.

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The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government 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 audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2024, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
July 8, 2024

Financial Statements

Neosho Memorial Regional Medical Center
Statements of Net Position
December 31, 2023 and 2022

Assets

	2023	2022
Current assets		
Cash and cash equivalents	$ 13,451,596	$ 16,237,532
Investments	196,890	173,913
Assets limited as to use	1,032,043	1,013,058
Patient accounts receivable, net of estimated uncollectibles of $5,633,340 in 2023 and $4,649,470 in 2022	9,074,851	7,375,012
Inventories	1,045,968	1,141,485
Prepaid expenses	1,408,384	1,604,600
Other receivables	2,203,757	1,916,069
Grants and contributions receivable	687,237	
Estimated third-party payor settlements	1,032,480	1,653,112
Total current assets	30,133,206	31,114,781
Assets limited as to use		
Internally designated for capital acquisition	121,325	642,871
Under bond indenture agreements - held by trustee	1,814,493	4,111,378
Other restricted cash	280,065	
Donor-imposed restrictions		59,100
	2,215,883	4,813,349
Less amount required to meet current obligations	1,032,043	1,013,058
	1,183,840	3,800,291
Noncurrent prepaid expenses	43,667	109,167
Capital assets		
Capital assets not being depreciated	8,177,994	2,216,832
Depreciable capital assets, net of accumulated depreciation	24,896,236	25,812,711
Leased assets, net of accumulated amortization	960,790	1,418,832
Subscription assets, net of accumulated amortization	2,963,698	3,566,385
Total capital assets	36,998,718	33,014,760
Total assets	$ 68,359,431	$ 68,038,999

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2023	2022
Current liabilities		
Current maturities of long-term debt	$ 17,400,000	$ 2,010,000
Current maturities of lease liabilities	471,079	453,270
Current maturities of subscription liabilities	577,088	549,000
Accounts payable and accrued expenses	1,916,451	1,960,457
Salaries, wages, and payroll taxes payable	1,125,551	989,649
Accrued vacation pay	1,753,288	1,627,805
Estimated health insurance claims payable	338,300	377,115
Interest payable	114,778	124,504
Unearned CARES Act revenue		135,000
Estimated third-party payor settlements	76,835	53,171
Total current liabilities	23,773,370	8,279,971
Long-term liabilities		
Long-term debt, net of current maturities		17,400,000
Lease liabilities, net of current maturities	535,793	1,006,873
Subscription liabilities, net of current maturities	2,508,139	3,085,227
Refundable and nonrefundable fees	2,093,508	1,587,377
Total long-term liabilities	5,137,440	23,079,477
Total liabilities	28,910,810	31,359,448
Deferred inflows of resources		
Deferred sales tax revenue	471,789	130,759
Total deferred inflows of resources	471,789	130,759
Net position		
Invested in capital assets, net of related debt, excluding component units	13,885,901	9,909,461
Restricted for debt service	1,032,043	1,013,059
Component units	115,426	285,466
Unrestricted	23,943,462	25,340,806
Total net position	38,976,832	36,548,792
Total liabilities, deferred inflows of resources, and net position	$ 68,359,431	$ 68,038,999

Neosho Memorial Regional Medical Center
Statements of Revenues, Expenses, and
Changes in Net Position
Years ended December 31, 2023 and 2022

	2023	2022
Operating revenues		
Net patient service revenue	$ 56,090,350	$ 53,800,960
Other	799,009	757,062
Total operating revenues	56,889,359	54,558,022
Operating expenses		
Salaries and wages	28,484,179	26,826,767
Employee benefits	7,120,407	6,369,653
Supplies and other expenses	22,161,303	21,967,044
Depreciation and amortization	5,049,764	5,017,971
Total operating expenses	62,815,653	60,181,435
Operating loss	(5,926,294)	(5,623,413)
Nonoperating revenues (expenses)		
Investment income	739,856	155,822
Interest expense	(586,720)	(786,387)
Ambulance subsidy	2,120,000	2,429,005
Noncapital grants and contributions	267,334	634,771
Noncapital COVID-19 grants and contributions	91,337	1,017,977
Other	(183,738)	(132,034)
Total nonoperating revenues (expenses)	2,448,069	3,319,154
Revenues over (under) expenses before capital grants and contributions	(3,478,225)	(2,304,259)
Capital grants and contributions	735,600	2,509,511
COVID-19 capital grants and contributions	5,170,665	
Change in net position	2,428,040	205,252
Net position at beginning of year		
As previously reported	36,616,634	36,343,540
Prior period adjustment for change in accounting principle	(67,842)	
As restated	36,548,792	36,343,540
Net position at end of year	$ 38,976,832	$ 36,548,792

The accompanying notes are an integral part of these statements.

Neosho Memorial Regional Medical Center
Statements of Cash Flows
Years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 55,540,938	$ 48,519,859
Payments to or on behalf of employees	(35,382,016)	(32,901,296)
Payments for supplies and services	(22,401,207)	(22,478,206)
Other receipts and payments	126,252	764,870
Net cash used by operating activities	(2,116,033)	(6,094,773)
Cash flows from noncapital financing activities		
Ambulance subsidy	2,120,000	1,877,440
Noncapital grants and contributions	358,671	634,771
COVID-19 grants received		135,000
Principal payments on notes payable to bank		(130,500)
Interest payments on notes payable to bank		(485)
Other nonoperating expenses	(183,738)	(132,034)
Net cash provided by noncapital financing activities	2,294,933	2,384,192
Cash flows from capital and related financing activities		
Purchase of capital assets	(8,481,804)	(3,769,942)
Proceeds from issuance of long-term debt		8,045,000
Principal payments on long-term debt	(2,010,000)	(9,883,038)
Interest payments on long-term debt	(373,512)	(548,813)
Principal payments on lease liabilities	(453,271)	(378,447)
Interest paid on lease liabilities	(51,299)	(48,582)
Principal payments on subscription liabilities	(549,000)	(534,845)
Interest paid on subscription liabilities	(171,635)	(185,791)
Proceeds from sale of capital assets	2,543	
Capital grants and contributions	5,771,265	2,509,511
Net cash used for capital and related financing activities	(6,316,713)	(4,794,947)
Cash flows from investing activities		
Change in assets limited as to use	2,355,985	368,913
Changes in investments	(17,944)	40,685
Investment income received	772,355	151,050
Net cash provided (used) by investing activities	3,110,396	560,648
Change in cash and cash equivalents	(3,027,417)	(7,944,880)
Cash and cash equivalents at beginning of year	16,880,403	24,825,283
Cash and cash equivalents at end of year	$ 13,852,986	$ 16,880,403

The accompanying notes are an integral part of these statements.

Neosho Memorial Regional Medical Center
Statements of Cash Flows - Continued
Years ended December 31, 2023 and 2022

	2023	2022
Reconciliation of cash and cash equivalents to statements of financial position		
Cash and cash equivalents in current assets	$ 13,451,596	$ 16,237,532
Cash internally designated by the board for capital asset acquisitions	121,325	642,871
Other restricted cash	280,065	
	$ 13,852,986	$ 16,880,403
Reconciliation of operating loss to net cash used by operating activities		
Operating loss	$ (5,926,294)	$ (5,623,413)
Adjustments to reconcile operating loss to net cash used by operating activities		
(Gain) loss on disposal of assets	(1,330)	292
Depreciation and amortization	5,049,764	5,017,971
Provision for bad debts	4,159,438	6,596,582
Change in assets and liabilities		
Accounts receivable	(5,859,277)	(5,067,553)
Estimated third-party payor settlements	644,296	(2,398,299)
Inventories	95,517	134,123
Prepaid expenses	261,716	(111,959)
Other current assets	(671,427)	7,516
Accounts payable and accrued expenses	(597,137)	(533,326)
Salaries and payroll taxes payable	135,902	153,942
Accrued vacation	125,483	131,374
Estimated health insurance claims payable	(38,815)	9,808
Medicare accelerated payments		(5,102,906)
Refundable and nonrefundable fees	506,131	691,075
Net cash used by operating activities	$ (2,116,033)	$ (6,094,773)
Supplemental schedule of noncash investing and financing activities		
Noncash lease liability incurred	$ -	$ 588,698

The accompanying notes are an integral part of these statements.

Neosho Memorial Regional Medical Center
Notes to Financial Statements
December 31, 2023 and 2022

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.

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; 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 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.

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

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.

16. Income taxes

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

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

17. Adoption of accounting pronouncements

Effective January 1, 2023, the Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs). GASB 96 establishes standards for financial reporting of SBITAs by government end users and defines a SBITA as a contract that conveys the right to use another party's information technology (IT) software, alone or in combination with tangible capital assets, as specified in a contract for a period of time in an exchange or exchange-like transaction. Under GASB 96, a SBITA user is required to recognize an intangible right-to-use subscription asset and a subscription liability. GASB 96 requires a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest period presented (i.e., January 1, 2022). Comparative prior year financial statements have been adjusted to apply this standard retrospectively which resulted in a beginning net position adjustment of $67,482. See Note T for amounts restated.

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, 2021.

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.

Note B - Reimbursement Programs - Continued

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

	2023	2022
Gross patient service revenue	$160,031,423	$158,355,123
Deductions from patient service revenue		
Third-party contractual adjustments	(92,887,034)	(93,995,106)
Medicaid DSH payments	1,667,360	1,517,415
Other discounts and allowances	(1,173,073)	(1,438,387)
Charity care	(7,342,749)	(3,949,305)
Uninsured discounts	(46,139)	(92,198)
Provision for bad debts	(4,159,438)	(6,596,582)
Net patient service revenue	$ 56,090,350	$ 53,800,960

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 $2,783,000 and $1,475,000 for 2023 and 2022, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 35 percent and 11 percent, respectively, of the Medical Center's net patient service revenue during 2023, and 41 percent and 11 percent, respectively, of the Medical Center's net patient service revenue during 2022. 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, 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 C - Capital Assets - Continued

	Balance December 31, 2021	Transfers and additions	Retirements	Balance December 31, 2022
Capital assets not being depreciated				
Land	$ 596,656	$ 109,665	$ -	$ 706,321
Projects in progress	1,434,398	76,113		1,510,511
Total capital assets not being depreciated	2,031,054	185,778	-	2,216,832
Capital assets being depreciated				
Land improvements	1,996,984	23,622	33,013	1,987,593
Buildings	32,578,720	1,498,024	1,943,339	32,133,405
Fixed equipment	20,609,283	429,179	61,727	20,976,735
Major movable equipment	30,354,643	2,256,458	7,668,519	24,942,582
Total capital assets being depreciated	85,539,630	4,207,283	9,706,598	80,040,315
Less accumulated depreciation for				
Land improvements	1,310,795	100,042	33,013	1,377,824
Buildings and fixed equipment	33,069,830	2,393,291	2,004,775	33,458,346
Major movable equipment	25,527,362	1,532,591	7,668,519	19,391,434
Total accumulated depreciation	59,907,987	4,025,924	9,706,307	54,227,604
Total capital assets being depreciated, net	25,631,643	181,359	291	25,812,711
Lease assets being amortized				
Leased equipment	1,702,443	588,698	-	2,291,141
Less accumulated amortization for				
Leased equipment	482,949	389,360	-	872,309
Total leased assets being amortized	1,219,494	199,338	-	1,418,832
Subscription assets being amortized				
Subscription assets	4,169,072	-	-	4,169,072
Less accumulated amortization for				
Subscription assets	-	602,687	-	602,687
Total subscription assets being amortized	4,169,072	(602,687)	-	3,566,385
Total capital assets, net	$ 33,051,263	$ (36,212)	$ 291	$ 33,014,760

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:

	2023	2022
Principal and interest repayment	$ 1,032,043	$ 1,013,060
Capital acquisitions	782,450	3,098,318
	$ 1,814,493	$ 4,111,378

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 are stated at fair value and are summarized as follows:

	2023	2022
Money market funds	$ 21,359	$ 27,969
Fixed income funds	62,694	62,621
Equity funds	112,837	83,323
	$ 196,890	$ 173,913

Investment income consists of the following:

	2023	2022
Interest on patient accounts	$ 46,981	$ 50,899
Dividends and interest	676,411	136,717
Investment fees	(1,853)	(1,895)
Realized and unrealized gains (losses)	18,317	(29,899)
	$ 739,856	$ 155,822

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, 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

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 27,969	$ -	$ -	$ 27,969
Fixed income funds	62,621			62,621
Equity funds	83,323			83,323
	$ 173,913	$ -	$ -	$ 173,913

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 $100,000 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:

	2023	2022
Estimated net health insurance claims payable at beginning of year	$ 377,115	$ 367,307
Provision for employer's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	3,617,328	3,266,509
Participant contributions	1,261,654	1,104,875
Payments made for claims and related expenses	(4,917,797)	(4,361,576)
Estimated net health insurance claims payable at end of year	$ 338,300	$ 377,115

Note H - COVID-19 Revenue

COVID-19 revenue consists of federal financial assistance through the Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, and subsequent legislation. The Medical Center received provider relief funds from the United States Department of Health and Human Services (HHS) to be used to prevent, prepare for, and respond to coronavirus and to reimburse the Medical Center for health care related expenses and lost revenues as defined by HHS, that are attributable to coronavirus, until such eligibility requirements are met. The Medical Center also received rural health clinic testing grants to be used to support coronavirus testing and related expenses in the rural health clinic. These funds are considered voluntary nonexchange transactions subject to eligibility requirements and are recognized as unearned income until the conditions have been satisfied. The Medical Center has determined that the conditions have been met for recognizing revenue of $1,017,977 in 2022 related to these grants.

In addition, the Medical Center was also the recipient of other COVID-19 grants during the year, 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 2023 were $5,262,002. Of this amount, $4,943,006 was used to construct a building on campus.

Note I - Long-term Debt

Long-term debt consists of the following:

	2023	2022
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	$ 7,905,000	$ 8,945,000
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	3,360,000	3,460,000
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	6,135,000	7,005,000
	17,400,000	19,410,000
Less current maturities of long-term debt	(17,400,000)	(2,010,000)
Long-term debt, net of current maturities	$ -	$ 17,400,000

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

Outstanding at January 1, 2022	$ 21,248,038
Issuance of long-term debt	8,045,000
Principal payments	(9,883,038)
Outstanding at December 31, 2022	19,410,000
Principal payments	(2,010,000)
Outstanding at December 31, 2023	$ 17,400,000

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.

Note I - Long-term Debt - Continued

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. The refunding transaction decreased the total amount of future debt service requirements by $342,682 and provided a net present value benefit of $312,171.

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. The Medical Center was below 1.0 on the debt service coverage ratio as of December 1, 2023, which is a default and can trigger an event of default. Due to this, the revenue bonds have been classified as current at December 31, 2023.

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

	Principal	Interest	Total
2024	$ 2,040,000	$ 344,333	$ 2,384,333
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 to 2033	6,840,000	316,985	7,156,985
	$ 17,400,000	$ 1,688,276	$ 19,088,276

Total interest costs are summarized as follows:

	2023	2022
Revenue bonds	$ 363,786	$ 394,566
Lease liabilities	51,299	48,582
Subscription liabilities	171,635	185,791
Other		485
Bond issuance costs		156,963
	$ 586,720	$ 786,387

Note J - 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:

	2023	2022
Equipment lease liability; implied interest rate of 3.50%; payable in monthly installments of $30,970 through June 2025	$ 571,620	$ 916,682
Equipment lease liability; implied interest rate of 5.00%; payable in monthly installments of $11,077 through July 2027	435,252	543,461
	1,006,872	1,460,143
Less current maturities of lease liabilities	(471,079)	(453,270)
Noncurrent portion	$ 535,793	$ 1,006,873

The following is a summary of changes in lease liabilities:

Outstanding at January 1, 2022	$ 1,249,892
Additions	588,698
Principal payments	(378,447)
Outstanding at December 31, 2022	1,460,143
Principal payments	(453,271)
Outstanding at December 31, 2023	$ 1,006,872

Scheduled future lease liability payments are as follows:

	Principal	Interest	Total
2024	$ 471,079	$ 33,490	$ 504,569
2025	333,849	15,867	349,716
2026	125,681	7,243	132,924
2027	76,263	1,276	77,539
	$ 1,006,872	$ 57,876	$ 1,064,748

Note J - Lease Liabilities - Continued

Rental expense for all leases consisted of the following:

	2023	2022
Amortization of leased assets	$ 458,042	$ 389,360
Interest on lease liabilities	51,299	48,582
Short-term leases	113,698	188,740
	$ 623,039	$ 626,682

Note K - 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 is considered variable consideration. The variable consideration was not significant for the years ended December 31, 2023 and 2022. The following is a summary of subscription liabilities as of December 31:

	2023	2022
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	$ 3,085,227	$ 3,634,227
Less current maturities of lease liabilities	(577,088)	(549,000)
Noncurrent portion	$ 2,508,139	$ 3,085,227

The following is a summary of changes in subscription liabilities:

Outstanding at January 1, 2022	$ 4,169,072
Principal payments	(534,845)
Outstanding at December 31, 2022	3,634,227
Principal payments	(549,000)
Outstanding at December 31, 2023	$ 3,085,227

Note K - Subscription Liabilities - Continued

Scheduled future subscription liability payments are as follows:

	Principal	Interest	Total
2024	$ 577,088	$ 143,548	$ 720,636
2025	561,097	114,023	675,120
2026	543,138	86,466	629,604
2027	570,926	58,678	629,604
2028	600,136	29,468	629,604
Thereafter	232,842	2,918	235,760
	$ 3,085,227	$ 435,101	$ 3,520,328

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

	2023	2022
Amortization of subscription assets	$ 602,687	$ 602,687
Interest on subscription liabilities	171,635	185,791
	$ 774,322	$ 788,478

Note L - 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:

	2023	2022
Beginning of period	$ 1,268,806	$ 719,796
Payments received	404,085	549,010
Total refundable fees	$ 1,672,891	$ 1,268,806

Nonrefundable fees are summarized as follows:

	2023	2022
Beginning of period	$ 318,571	$ 176,506
Payments received	134,695	183,004
Amortization	(32,649)	(40,939)
Total nonrefundable fees	$ 420,617	$ 318,571

Note M - 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 2023 and 2022, for management services were $400,772 and $369,542, 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.

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 $2,120,000 in 2023 and $2,429,005 in 2022 for ambulance operations. At December 31, 2023 and 2022, the Medical Center had recorded a receivable from the County of $1,937,463 and $1,596,432 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 N - 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, 2023 and 2022**,** 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, 2023 and 2022, was $21,253,126 and $19,937,207, respectively. The total payroll was $28,417,694 in 2023 and $26,810,180 in 2022. 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. Total contributions to the Plan in 2022 were $1,958,186, which consisted of $1,257,232 of employee contributions and $700,954 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 3.6 and 3.5 percent of covered payroll in 2023 and 2022. Total employee contributions were 6.7 and 6.3 percent of covered payroll in 2023 and 2022.

Note O - 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 $13,850,571, and the bank balance was $14,885,768 at December 31, 2023. The bank deposits are categorized as follows:

	Medical Center	Component units	Total
Amount insured by the F.D.I.C.	$ 1,616,329	$ 174,681	$ 1,791,010
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 $2,000,000 letter of credit	13,094,758		13,094,758
	$ 14,711,087	$ 174,681	$ 14,885,768

Note P - 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 Q - 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:

	2023	2022
Medicare	17 %	21 %
Medicaid	8	12
Blue Cross	12	14
Commercial and other	41	27
Uninsured	22	26
	100 %	100 %

Note R - 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, 2024, for the policy period from January 1, 2024 to January 1, 2025. Management believes that any claims asserted for incidents occurring through December 31, 2023, would be settled within the limits of insurance coverage.

Note S - Condensed Combining Information

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	$ 23,772,740	$ 329,976	$ (329,346)	$ 23,773,370
Noncurrent liabilities	3,043,932	2,093,508		5,137,440
Total liabilities	26,816,672	2,423,484	(329,346)	28,910,810
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	23,943,462			23,943,462
Total net position	38,861,406	115,426	-	38,976,832
Total liabilities, deferred inflows of resources, and net position	$ 66,149,867	$ 2,538,910	$ (329,346)	$ 68,359,431

Note S - 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	28,484,179			28,484,179
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	62,672,113	143,540	-	62,815,653
Operating loss	(5,856,353)	(69,941)	-	(5,926,294)
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	(3,324,452)	(1,736,423)	1,582,650	(3,478,225)
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	2,598,080	(170,040)	-	2,428,040
Net position beginning of year				
As previously reported	36,331,168	285,466		36,616,634
Prior period adjustment for change in accounting principle	(67,842)			(67,842)
As restated	36,263,326	285,466	-	36,548,792
Net position end of year	$ 38,861,406	$ 115,426	$ -	$ 38,976,832

Note S - 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

Condensed financial data for the Medical Center and its blended component units as of and for the year ended December 31, 2022, are presented in the following tables:

	Statement of Net Position - 2022			
	Medical Center	Component units	Eliminations	Combined
Assets				
Current assets	$ 30,564,693	$ 550,088	$ -	$ 31,114,781
Capital assets	31,616,105	1,398,655		33,014,760
Other assets	3,850,358	59,100		3,909,458
Total assets	$ 66,031,156	$ 2,007,843	$ -	$ 68,038,999
Liabilities				
Current liabilities	$ 8,144,971	$ 135,000	$ -	$ 8,279,971
Noncurrent liabilities	21,492,100	1,587,377		23,079,477
Total liabilities	29,637,071	1,722,377	-	31,359,448
Deferred inflows of resources	130,759	-	-	130,759
Net position				
Invested in capital assets net of related debt, excluding component units	9,909,461			9,909,461
Restricted for debt service	1,013,059			1,013,059
Restricted for component units		285,466		285,466
Unrestricted	25,340,806			25,340,806
Total net position	36,263,326	285,466	-	36,548,792
Total liabilities, deferred inflows of resources, and net position	$ 66,031,156	$ 2,007,843	$ -	$ 68,038,999

Note S - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2022			
	Medical Center	Component units	Eliminations	Combined
Operating revenues				
Net patient service revenue	$ 53,800,960	$ -	$ -	$ 53,800,960
Other	682,795	74,267		757,062
Total operating revenues	54,483,755	74,267	-	54,558,022
Operating expenses				
Salaries and wages	26,826,767			26,826,767
Employee benefits	6,369,653			6,369,653
Supplies and other expenses	21,911,981	55,063		21,967,044
Depreciation and amortization	4,956,066	61,905		5,017,971
Total operating expenses	60,064,467	116,968	-	60,181,435
Operating loss	(5,580,712)	(42,701)	-	(5,623,413)
Nonoperating revenues (expenses)				
Investment income	179,814	(23,992)		155,822
Interest expense	(785,902)	(485)		(786,387)
Ambulance subsidy	2,429,005			2,429,005
Noncapital grants and contributions	479,831	62,440	92,500	634,771
COVID-19 noncapital grants and contributions	1,017,977			1,017,977
Other		(955,830)	823,796	(132,034)
Total nonoperating revenues (expenses)	3,320,725	(917,867)	916,296	3,319,154
Revenues over (under) expenses before capital grants and contributions	(2,259,987)	(960,568)	916,296	(2,304,259)
Capital grants and contributions	2,511,521	914,286	(916,296)	2,509,511
Change in net position	251,534	(46,282)	-	205,252
Net position beginning of year	36,011,792	331,748		36,343,540
Net position end of year	$ 36,263,326	$ 285,466	$ -	$ 36,548,792

	Statement of Cash Flows - 2022			
	Medical Center	Component units	Eliminations	Combined
Net cash provided (used) by				
Operating activities	$ (6,542,217)	$ 447,444	$ -	$ (6,094,773)
Noncapital financing activities	2,357,271	(889,375)	916,296	2,384,192
Capital and related financing activities	(4,515,706)	637,055	(916,296)	(4,794,947)
Investing activities	608,331	(47,683)		560,648
Net change in cash and cash equivalents	(8,092,321)	147,441	-	(7,944,880)
Cash and cash equivalents at beginning of year	24,596,549	228,734		24,825,283
Cash and cash equivalents at end of year	$ 16,504,228	$ 376,175	$ -	$ 16,880,403

Note T - Adoption of New Accounting Standard

The Medical Center adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96) based on the facts and circumstances as of January 1, 2022. The following changes were made to the 2022 amounts in adoption of GASB 96.

	Amount as previously reported	Adoption of accounting standard	Amount as restated
Statement of Net Position			
Assets			
Subscription assets, net of accumulated amortization	$ -	$ 3,566,385	$ 3,566,385
Total capital assets	29,448,375	3,566,385	33,014,760
Total assets	64,472,614	3,566,385	68,038,999
Liabilities, Deferred Inflows of Resources, and Net Position			
Current maturities of subscription liabilities		549,000	549,000
Total current liabilities	7,730,971	549,000	8,279,971
Subscription liabilities, net of current maturities		3,085,227	3,085,227
Total long-term liabilities	19,994,250	3,085,227	23,079,477
Total liabilities	27,725,221	3,634,227	31,359,448
Invested in capital assets, net of related debt, excluding component units	9,654,775	254,686	9,909,461
Total net position	36,616,634	(67,842)	36,548,792
Total liabilities, deferred inflows of resources, and net position	64,472,614	3,566,385	68,038,999
Statement of Revenues, Expenses, and Changes in Net Position			
Operating expenses			
Supplies and other expenses	22,687,680	(720,636)	21,967,044
Depreciation and amortization	4,415,284	602,687	5,017,971
Total operating expenses	60,299,384	(117,949)	60,181,435
Operating loss	(5,741,362)	117,949	(5,623,413)
Nonoperating revenues (expenses)			
Interest expense	(600,596)	(185,791)	(786,387)
Total nonoperating revenues (expenses)	3,504,945	(185,791)	3,319,154
Revenues over (under) expenses before capital grants and contributions	(2,236,417)	(67,842)	(2,304,259)
Change in net position	273,094	(67,842)	205,252
Statement of Cash Flows			
Cash flows from operating activities			
Payments for supplies and services	(23,198,842)	720,636	(22,478,206)
Net cash used by operating activities	(6,815,409)	720,636	(6,094,773)
Cash flows from capital and related financing activities			
Principal payments on subscription liabilities		(534,845)	(534,845)
Interest paid on subscription liabilities		(185,791)	(185,791)
Net cash used for capital and related financing activities	(4,074,311)	(720,636)	(4,794,947)

Note U - 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 was negatively impacted by the cyberattack on UnitedHealth Group's subsidiary Change Healthcare in late February 2024, which has resulted in the disruption of claims processing. In response to the incident, on March 9, 2024, CMS made available Change Healthcare/Optum Payment Distribution (CHOPD) accelerated payments to certain Medicare providers. The Hospital Applied for and received a CHOPD accelerated payment in the amount of $862,861. The accelerated payment will be recouped from Medicare claims for a period of 90 days with a final demand letter being issued for any remaining balance on day 91 following the issuance of the accelerated payment.

Supplementary Information

Neosho Memorial Regional Medical Center
Schedule of Expenditures of Federal Awards
Year ended December 31, 2023

Federal grantor/pass-through grantor/program title	Assistance listing number	Pass-through grantor's number	Passed through to subrecipients	Total federal expenditures
United States Department of Commerce				
Economic Adjustment Assistance - CARES Act Recovery Assistance Supplemental	11.307	N/A	$ -	$ 4,203,474
Total United States Department of Commerce			-	4,203,474
United States Department of Treasury				
Passed through Neosho County, Kansas				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A		135,000
Passed through State of Kansas				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A		739,532
Total United States Department of Treasury			-	874,532
Federal Communications Commission				
COVID-19 Telehealth Program	32.006	N/A		15,506
Total Federal Communications Commission			-	15,506
United States Department of Health and Human Services				
Passed through the State of Kansas				
Racial and Ethnic Approaches to Community Health	93.304	N/A		124,320
Congressional Directives	93.493	N/A		39,631
Passed through Healthworks KHA Foundation, Inc.				
Small Hospital Improvement Program	93.301	N/A		7,170
Total United States Department of Health and Human Services			-	171,121
United States Department of Agriculture				
COVID-19 Community Facilities Loans and Grants	10.766	N/A		7,942
Total United States Department of Agriculture			-	7,942
Total federal awards			$ -	$ 5,272,575

Neosho Memorial Regional Medical Center
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2023

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant award activity of Neosho Memorial Regional Medical Center, The Foundation of Neosho Memorial Regional Medical Center, Inc., and the Green Living Foundation, Inc., collectively, (the Medical Center) under programs of the federal government, for the year ended December 31, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Medical Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Medical Center.

Note 2 - Significant Accounting Policies

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

Note 3 - Indirect Cost Rate

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

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

Board of Trustees
Neosho Memorial Regional Medical Center

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States the financial statements of the business-type activities of Neosho Memorial Regional Medical Center (Medical Center), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated July 8, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

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Purpose of this Report

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

Wendling Noe Nolan & Johnson LLC

Topeka, Kansas
July 8, 2024

Wendling Noe Nelson & Johnson LLC
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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Neosho Memorial Regional Medical Center

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Neosho Memorial Regional Medical Center's (Medical Center) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Medical Center's major federal programs for the year ended December 31, 2023. The Medical Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Medical Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Medical Center's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Medical Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Medical Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

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

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
July 8, 2024

Neosho Memorial Regional Medical Center
Schedule of Findings and Questioned Costs on Federal Awards
Year ended December 31, 2023

Section I - Summary of Auditor's Results

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

Identification of major programs

CFDA Number	Name of Program
11.307	Economic Adjustment Assistance - CARES Act Recovery Assistance Supplemental
21.027	COVID-19 Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between type A and type B programs		$750,000
Entity qualified as low-risk auditee	___ Yes	_X_ No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None