Independent Auditor's Report and Financial Statements

Newman Memorial County Hospital
d/b/a Newman Regional Health

December 31, 2021 and 2020

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Newman Memorial County Hospital
d/b/a Newman Regional Health
Management's Discussion and Analysis
Years ended December 31, 2021 and 2020

Our discussion and analysis of the financial performance of Newman Regional Health provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2021 and 2020. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital's net position increased by $11,811,872 or 332 percent in 2021 as compared to an increase of $230,944 or 6.9 percent in 2020.

The Hospital reported an operating loss of $541,342 in 2021 compared to an operating loss of $4,415,649 in 2020. Significant items that affected the change in this loss from 2020 to 2021 are discussed in this management's discussion and analysis.

Using these financial statements

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

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

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

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

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

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

	2021	2020	2019
Assets			
Current assets	$ 39,588,931	$ 40,411,200	$ 16,426,372
Assets limited as to use	1,471,104	2,012,549	2,126,962
Capital assets, net	26,740,722	27,283,136	29,770,682
Other assets	245,301	197,308	266,144
Total assets	68,046,058	69,904,193	48,590,160
Deferred outflows related to advance debt refunding		26,427	55,256
Liabilities			
Current liabilities	15,787,973	19,827,631	7,580,021
Long-term obligations	17,070,656	26,030,156	18,535,305
Total liabilities excluding net pension and OPEB liabilities	32,858,629	45,857,787	26,115,326
Pension and OPEB liabilities net of deferred outflows and net deferred inflows of resources related to pension and OPEB plans	19,817,558	20,514,834	19,203,035
Net position	$ 15,369,871	$ 3,557,999	$ 3,327,055

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

Our liquidity position when measured by the ratio of current assets to current liabilities was 2.5 in 2021, 2.0 in 2020, and 2.2 in 2019. Current assets decreased by $822,269 in 2021 and increased by $23,984,828 in 2020. Significant components of current assets are cash and cash equivalents and patient accounts receivable. Cash and cash equivalents totaled $26.6 million in 2021 and $26.7 million in 2020. The level of patient accounts receivable is impacted by patient revenues generated during the last two months of the year as well as our efficiency in collecting charges. The number of days net revenue reported in net accounts receivable was 51 days in 2021, 45 days in 2020, and 47 days in 2019.

Total liabilities, excluding the net pension and OPEB liabilities, decreased in 2021 by $12,999,158 and increased by $19,742,461 in 2020. Significant items affecting the increase in 2020 were a $6,108,700 PPP loan payable, $3,827,267 in CARES Act unearned revenues, and $10,616,601 in Medicare advance payments received. The significant items affecting the decrease in 2021 are the Hospital meeting the terms and conditions for PPP loan forgiveness and recognizing CARES Act unearned revenues and the Hospital repaying a portion of the Medicare advance payments received.

The net pension and OPEB liabilities, deferred outflows, and inflows related to KPERS were $19,817,558, $20,514,834, and $19,203,035 at December 31, 2021, 2020, and 2019, respectively. The changes in these net amounts are actuarially determined by KPERS and will fluctuate based on actuarial assumptions related to investment returns, inflation, mortality rates, and other factors.

Operating results and changes in net position

In 2021, the Hospital's net position increased by $11,811,872 or 332 percent as shown in the following table. This increase is made up of very different components. The Hospital's operating results and changes in net position for each of the last three years are summarized as follows:

	2021	2020	2019
Operating revenues			
Net patient service revenue	$ 69,895,170	$ 65,777,571	$ 66,907,284
Other operating revenue	2,974,120	3,273,973	2,276,843
Total operating revenue	72,869,290	69,051,544	69,184,127
Operating expenses			
Salaries and wages	34,136,223	32,448,541	31,747,822
Employee benefits	7,938,119	10,069,495	9,512,543
Supplies and other expenses	28,286,306	26,924,334	27,792,737
Depreciation and amortization	3,049,984	4,024,823	4,208,410
Total operating expenses	73,410,632	73,467,193	73,261,512
Operating loss	(541,342)	(4,415,649)	(4,077,385)
Interest expense	(607,692)	(634,003)	(651,401)
Property taxes	300,000	200,000	325,000
Other nonoperating revenues (expenses)	12,277,420	5,001,387	1,583,538
Capital grants and contributions	383,486	79,209	532,049
Transfer of net assets to community foundation			(6,383,386)
Change in net position	$ 11,811,872	$ 230,944	$ (8,671,585)

The first component of the overall change in the Hospital's net position is the operating income - generally, the difference between operating revenues and expenses incurred to perform those services. The Hospital reported an operating loss of $541,342 in 2021, a $3,874,307 increase as compared with 2020. There were three noticeable changes between 2021 and 2020 that affected the change in operating loss. The first item

affecting the change in operating results was the overall increase in net patient service revenue of $4,117,599 in 2021, which was primarily due to the coronavirus pandemic having a lessor negative impact on operations. In 2020, net patient service revenue decreased by $1,129,713 over the prior year. Other operating revenue in 2021 decreased by $299,853, which was primarily related to decreased 340b drug program revenue. Another significant item affecting the change in operating loss was the $2,009,075 change in the actuarial adjustments related to pension and other post-employment benefit expenses associated with our participation in the KPERS system. These adjustments in total were $(697,276) in 2021, $1,311,799 in 2020, and $708,963 in 2019. The last noticeable change is the $974,839 decrease in depreciation expense which was due to some past software costs becoming fully depreciated during the year.

The operating performance of our Hospital is influenced by utilization, availability of physician services, patient access to health insurance coverage, and third-party reimbursement rates. The Hospital generates approximately 23 percent of gross revenues from inpatient services and 77 percent from outpatient and physician services. The Medicare program, which accounts for 49 percent of the Hospital's net revenues, reimburses inpatient, swing-bed, rural health clinic (RHC), and outpatient services based upon a cost reimbursement methodology. Inpatient rehabilitation, physician other than RHC services, and hospice services are prospectively reimbursed by Medicare.

The Hospital's net patient service revenue increased by 6.2 percent in 2021 as compared to 2020, and decreased by 1.7 percent in 2020 as compared to 2019. The change in net revenues is partially due to an increase in patient volume. Total inpatient days of care (acute, intensive care, swing-bed, rehabilitation, and nursery) were; 8,233, 8,147, and 8,200 in 2021, 2020, and 2019, respectively.

The change in operating revenues from year to year is also impacted by the amount of payments received from the State of Kansas Medicaid disproportionate share hospital (DSH) program. During 2021, 2020, and 2019, the Hospital recognized Medicaid DSH revenue of $1,063,974, $997,291, and $694,508, respectively. Eligibility for these payments is determined annually based upon numerous factors including uncompensated care cost from providing services to the uninsured and Medicaid beneficiaries as compared with other qualifying hospital providers. These funds are essential to offsetting a portion of the loss from treating uninsured and underinsured patients.

Another factor affecting net patient service revenue is the amount of care provided by the Hospital for which no payment is received or expected to be received. Understanding our role as a community member, the Hospital has a policy to automatically provide a 20 percent discount to all uninsured patients. The percentage of gross charges that are written off due to uninsured discounts, charity care discounts, and bad debts equaled 5.3 percent in 2021. This compares to 5.5 percent in 2020 and 5.9 percent in 2019. Total discounts granted to uninsured or charity care patients equaled $2,681,252 in 2021 as compared to $2,600,874 in 2020 and $3,187,242 in 2019.

Salaries and benefits are significant components of operations. Total salaries and wages increased by 5.2 percent in 2021, 2.2 percent in 2020, and by 1.1 percent in 2019. The change in salaries is primarily driven by the change in FTEs. Employee benefits expense excluding the effect of the actuarial adjustment related to the pension plan represented 25.3, 27.0, and 27.7 percent of salary expense. The change in this percentage is largely dependent upon our KPERS funding requirements and the cost of health insurance. Health insurance decreased approximately $295,000 in 2021 and increased approximately $105,000 in 2020 as compared to the prior year. Our KPERS cash funding (excluding the pension adjustment) was 8.9 percent, 8.6 percent, and 8.9 percent of covered salary in 2021, 2020, and 2019. As noted above, the effect of the actuarial determined pension and OPEB expense was a $697,276 decrease in expense in 2021, $1,311,799 increase in 2020, and a $708,963 increase in 2019. Additional information related to the funding of our pension obligations can be found in the footnotes and supplementary information.

Supplies and other expenses increased by $1,361,972 or 5.1 percent in 2021 and decreased by $868,403 or 3.1 percent in 2020, as compared to 2019. The increase in 2021 expense is due to continued cost pressures associated with the pandemic which includes the cost of supplies and contract labor needed during peak staffing periods.

Depreciation and amortization expenses decreased $974,839 in 2021, decreased by $183,587 in 2020, and increased by $440,244 in 2019. These changes are based on the level of new capital and equipment placed into service by year as compared to the property and equipment which becomes fully depreciated.

Other nonoperating revenue and (expenses) were $11,969,728 in 2021, $4,567,384 in 2020, and $1,583,538 in 2019. The increase in 2021 was due to recognizing a portion of the grants associated with the pandemic funding and the Hospital receiving forgiveness of its PPP loan.

The Foundation was dissolved on December 26, 2019, and its remaining assets were transferred to the Emporia Community Foundation to establish the Newman Regional Health Fund. Under the agreement, distributions may be made on an as needed basis in any amount not to exceed the balance of the fund. The Emporia Community Foundation has been granted variance power under the terms of the agreement. This transaction resulted in a $6,383,386 decrease in net position in 2019.

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

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Independent Auditor's Report

Board of Trustees
Newman Memorial County Hospital

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Hospital as of December 31, 2021 and 2020, and the respective changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Kansas Municipal Audit and Accounting Guide. The audit of the financial statements as of and for the year ended December 31, 2020, was not conducted under *Government Auditing Standards.* Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing* Standards, and the Kansas Municipal Audit and Accounting Guide will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery,

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intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5, and the pension and other postretirement information on pages 36 through 38 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2022, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
June 28, 2022

Financial Statements

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

Assets and Deferred Outflows of Resources

	2021	2020
Current assets		
Cash and cash equivalents	$ 26,619,278	$ 26,712,086
Assets limited as to use	262,680	262,071
Patient accounts receivable, net of estimated uncollectibles of $2,627,100 in 2021 and $2,263,200 in 2020	9,850,157	8,082,760
Other receivables	407,315	528,181
Property tax receivable	75,000	
Inventories	1,889,211	2,071,288
Prepaid expenses	485,290	774,814
Estimated third-party payor settlements		1,980,000
Total current assets	39,588,931	40,411,200
Assets limited as to use		
Under bond indenture agreements - held by trustee less amounts required to meet current obligations	1,471,104	2,012,549
Capital assets, net	26,740,722	27,283,136
Other assets		
Other receivables	177,475	120,692
Prepaid bond insurance	67,826	76,616
Total other assets	245,301	197,308
Total assets	68,046,058	69,904,193
Deferred outflows of resources		
Pension	6,281,817	6,895,820
Other postemployment benefits	94,214	98,495
Loss on bond refunding		26,427
Total deferred outflows of resources	6,376,031	7,020,742
Total assets and deferred outflows of resources	$ 74,422,089	$ 76,924,935

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2021	2020
Current liabilities		
Current maturities of long-term debt	$ 1,069,253	$ 1,156,083
SBA PPP loan payable		6,108,700
Accounts payable and accrued expenses	2,294,175	1,631,054
Accrued salaries, vacation, benefits, and payroll taxes	3,768,758	3,606,239
Interest payable	53,883	55,883
Accrued health insurance claims	305,000	283,000
Estimated liability for receivables sold with recourse	62,000	88,000
Estimated third-party payor settlements	1,100,000	200,000
Unearned CARES Act revenue	1,081,527	3,827,267
Medicare accelerated payments	6,053,377	2,871,405
Total current liabilities	15,787,973	19,827,631
Noncurrent liabilities		
Long-term debt, net of current maturities	17,070,656	18,284,960
Medicare accelerated payments, net of current portion		7,745,196
Other postemployment liability	803,393	794,040
Net pension liability	18,214,327	25,745,143
Total noncurrent liabilities	36,088,376	52,569,339
Total liabilities	51,876,349	72,396,970
Deferred inflows of resources		
Pension	6,900,969	686,638
Other postemployment benefits	274,900	283,328
Total deferred inflows of resources	7,175,869	969,966
Net position		
Net investment in capital assets	8,600,813	8,435,930
Restricted		
For debt service	1,733,784	1,707,210
For capital purchases	213,792	
For specific operating activities	14,895	79,446
Unrestricted	4,806,587	(6,664,587)
Total net position	15,369,871	3,557,999
Total liabilities, deferred inflows of resources, and net position	$ 74,422,089	$ 76,924,935

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

	2021	2020
Operating revenues		
Net patient service revenue	$ 69,895,170	$ 65,777,571
Other	2,974,120	3,273,973
Total operating revenues	72,869,290	69,051,544
Operating expenses		
Salaries and wages	34,136,223	32,448,541
Employee benefits	8,635,395	8,757,696
Actuarial adjustments for pension and OPEB expenses	(697,276)	1,311,799
Supplies and other expenses	28,286,306	26,924,334
Depreciation and amortization	3,049,984	4,024,823
Total operating expenses	73,410,632	73,467,193
Operating loss	(541,342)	(4,415,649)
Nonoperating revenues (expenses)		
Investment income	559,682	380,223
Interest expense	(607,692)	(634,003)
Noncapital grants and contributions	6,265,763	256,559
COVID-19 noncapital grants	5,451,802	4,364,032
Property taxes	300,000	200,000
Other	173	573
Total nonoperating revenues (expenses)	11,969,728	4,567,384
Excess of revenues over expenses before capital grants and contributions	11,428,386	151,735
Capital grants and contributions	383,486	79,209
Change in net position	11,811,872	230,944
Net position at beginning of year	3,557,999	3,327,055
Net position, end of year	$ 15,369,871	$ 3,557,999

The accompanying notes are an integral part of these statements.

Newman Memorial County Hospital
d/b/a Newman Regional Health
Statements of Cash Flows
Year ended December 31,

	2021	2020
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 66,418,549	$ 75,758,374
Payments to or on behalf of employees	(42,541,099)	(40,915,343)
Payments to suppliers	(27,336,533)	(27,811,214)
Other receipts and payments	2,992,203	3,288,326
Net cash provided (used) by operating activities	(466,880)	10,320,143
Cash flows from noncapital financing activities		
Noncapital grants and contributions	157,063	256,559
Property taxes	225,000	200,000
Proceeds from SBA PPP loan payable		6,108,700
COVID-19 relief payments received	2,706,062	8,191,299
Other	173	248
Net cash provided by noncapital financing activities	3,088,298	14,756,806
Cash flows from capital and related financing activities		
Purchase of capital assets	(2,322,621)	(1,124,113)
Grants and contributions for capital	383,486	79,209
Proceeds from sale of equipment		325
Interest paid on capital related debt	(713,229)	(743,486)
Principal payments on long-term debt	(1,162,380)	(1,372,086)
Net cash used by capital and related financing activities	(3,814,744)	(3,160,151)
Cash flows from investing activities		
Change in assets limited as to use held by trustee under bond indenture agreement	543,891	(93,712)
Interest received	556,627	384,206
Net cash provided by investing activities	1,100,518	290,494
Change in cash and cash equivalents	(92,808)	22,207,292
Cash and cash equivalents at beginning of year	26,712,086	4,504,794
Cash and cash equivalents at end of year	$ 26,619,278	$ 26,712,086

The accompanying notes are an integral part of these statements.

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

	2021	2020
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	$ (541,342)	$ (4,415,649)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	3,049,984	4,024,823
Provision for bad debts	4,483,310	4,324,768
Changes in		
Patient accounts receivable	(6,250,707)	(3,862,190)
Inventories	182,077	(281,265)
Prepaid expenses	289,524	(249,014)
Other receivables	64,083	23,353
Accounts payable and accrued expenses	662,691	(74,707)
Estimated third-party payor settlements	2,880,000	(1,090,376)
Medicare accelerated payments	(4,563,224)	10,616,601
Estimated liability for receivables sold	(26,000)	(8,000)
Net pension and OBEB liability, deferred inflows, and deferred outflows related to pension and OPEB liabilities	(697,276)	1,311,799
Net cash provided (used) by operating activities	$ (466,880)	$ 10,320,143
Supplemental schedule of noncash investing and financing activities		
Capital lease obligations incurred	$ -	$ 887,805
Prepaid expense lease obligation incurred		329,200

The accompanying notes are an integral part of these statements.

Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements
December 31, 2021 and 2020

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

1. Reporting entity

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

2. Use of estimates

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

3. Basis of accounting

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

4. Cash and cash equivalents

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

5. Allowance for doubtful accounts

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

6. Inventories

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

7. Investments and investment income

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

8. Assets limited as to use

Assets limited as to use include assets held by a trustee under bond indenture agreements.

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

9. Capital assets

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

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

10. Cost of borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

11. Accrued vacation and other employee benefits

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

12. Accrued health insurance claims

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

13. Deferred outflows and inflows of resources

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

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

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

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

15. Net position

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

16. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

17. Grants and contributions

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

18. Property taxes

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

19. Income taxes

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

20. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

21. Subsequent events

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

Note B - Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for inpatient acute care, skilled swing-bed, rural health clinic (RHC), and certain outpatient services under various cost reimbursement methodologies. Inpatient rehab, hospice, and physician services, other than RHC services, are prospectively reimbursed based on prospectively determined rates. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2016.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. RHC services rendered to Medicaid beneficiaries are paid at a prospectively determined rate per occasion of service. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

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

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

	2021	2020
Gross patient service revenue	$135,830,851	$125,169,450
Deductions from patient service revenue		
Third-party contractual adjustments	(59,771,966)	(53,340,095)
Medicaid DSH payments	1,063,974	997,291
Provision for bad debts	(4,483,310)	(4,324,768)
Charity care	(1,518,854)	(1,405,276)
Uninsured discounts	(1,162,398)	(1,195,598)
Other discounts and allowances	(63,127)	(123,433)
Net patient service revenue	$ 69,895,170	$ 65,777,571

Note B - Net Patient Service Revenue - Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 49 percent and 8 percent, respectively, of the Hospital's net patient revenue during 2021 and 51 percent and 7 percent, respectively, of the Hospital's net patient revenue during 2020. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation.

The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from its Medicare cost reports, was $783,000 and $759,000 for 2021 and 2020, respectively.

Note C - Assets Limited as to Use

Under bond indenture agreements - held by trustee

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

	2021	2020
Principal and interest sinking fund	$ 262,642	$ 262,070
Interest receivable	5,974	3,761
Construction fund		567,410
Bond reserve fund	1,465,168	1,441,379
	$ 1,733,784	$ 2,274,620

Assets are invested by the trustee as follows:

	2021	2020
Cash	$ 838	$ 916,237
Money Market Treasury fund	711	
U.S. Government and Agency obligations at fair value	1,726,261	1,354,622
Interest receivable	5,974	3,761
	$ 1,733,784	$ 2,274,620

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

Note D - Capital Assets

	Balance December 31, 2020	Transfers and additions	Retirements	Balance December 31, 2021
Land Improvements	$ 869,285	$ -	$ -	$ 869,285
Buildings	49,368,286	1,192,013		50,560,299
Medical office building	11,659,554			11,659,554
Fixed equipment	11,167,243			11,167,243
Future expansion property	430,185			430,185
Rental property	561,321	105,000		666,321
Leasehold improvements	402,738		109,111	293,627
Major movable equipment	21,478,721	1,286,356	828,509	21,936,568
Intangibles	13,857			13,857
Total capital assets being depreciated	95,951,190	2,583,369	937,620	97,596,939
Less accumulated depreciation and amortization for				
Land improvements	615,286	35,019		650,305
Buildings	32,784,661	1,422,500		34,207,161
Medical office building	8,646,957	220,757		8,867,714
Fixed equipment	9,731,613	323,400		10,055,013
Future expansion property	14,745	4,115		18,860
Rental property	95,399	25,954		121,353
Leasehold improvements	202,018	37,816	109,110	130,724
Major movable equipment	17,987,767	978,214	828,510	18,137,471
Intangibles	11,434	2,209		13,643
Total accumulated depreciation and amortization	70,089,880	3,049,984	937,620	72,202,244
Total capital assets being depreciated, net	25,861,310	(466,615)	-	25,394,695
Land	1,293,632	15,000		1,308,632
Projects in progress	128,194	(90,799)		37,395
Total capital assets not being depreciated	1,421,826	(75,799)	-	1,346,027
Capital assets, net	$ 27,283,136	$ (542,414)	$ -	$ 26,740,722

Note D - Capital Assets - Continued

	Balance December 31, 2019	Transfers and additions	Retirements	Balance December 31, 2020
Land improvements	$ 876,480	$ -	$ 7,195	$ 869,285
Buildings	49,021,327	449,395	102,436	49,368,286
Medical office building	11,611,344	48,210		11,659,554
Fixed equipment	10,853,150	531,243	217,150	11,167,243
Future expansion property	430,185			430,185
Rental property	561,321			561,321
Leasehold improvements	402,738			402,738
Major movable equipment	23,515,020	765,389	2,801,688	21,478,721
Intangibles	13,857			13,857
Total capital assets being depreciated	97,285,422	1,794,237	3,128,469	95,951,190
Less accumulated depreciation and amortization for				
Land improvements	586,305	36,176	7,195	615,286
Buildings	31,406,079	1,481,018	102,436	32,784,661
Medical office building	8,426,250	220,707		8,646,957
Fixed equipment	9,586,268	362,495	217,150	9,731,613
Future expansion property	10,630	4,115		14,745
Rental property	72,946	22,453		95,399
Leasehold improvements	162,339	39,679		202,018
Major movable equipment	18,936,284	1,853,171	2,801,688	17,987,767
Intangibles	6,425	5,009		11,434
Total accumulated depreciation and amortization	69,193,526	4,024,823	3,128,469	70,089,880
Total capital assets being depreciated, net	28,091,896	(2,230,586)	-	25,861,310
Land	1,293,632			1,293,632
Projects in progress	385,154	(256,960)		128,194
Total capital assets not being depreciated	1,678,786	(256,960)	-	1,421,826
Capital assets, net	$ 29,770,682	$ (2,487,546)	$ -	$ 27,283,136

Note E - Long-Term Debt

Long-term debt obligations consist of the following:

	2021	2020
Lyon County, Kansas Public Building Commission, Newman Memorial County Hospital Refunding Revenue Bonds, Series 2016-A, issued October 31, 2016, in the original amount of $19,970,000, 3.00% to 5.00% bonds due serially through December 1, 2036	$ 16,250,000	$ 17,050,000
2.28% Lease payable to bank paid off in 2021		122,119
3.74% Lease payable to equipment vendor entered into November 9, 2018, in the original amount of $12,742, payable in equal monthly installments of $223, including interest, through March 1, 2024, collateralized by equipment with an amortized cost of $4,885 at December 31, 2021	5,545	7,957
3.65% Lease payable to bank entered into March 15, 2020, in the original amount of $890,855, payable in equal monthly installments of $16,403, including interest, through March 15, 2025, collateralized by equipment with an amortized cost of $681,566 at December 31, 2021	591,213	763,054
5.55% Note payable to equipment vendor entered into March 1, 2020, in the original amount of $329,200, payable in equal monthly installments of $6,298, including interest through March 1, 2025, uncollateralized	222,483	288,491
	17,069,241	18,231,621
Add net unamortized premium on bonds	1,070,668	1,209,422
Less current maturities of long-term debt	(1,069,253)	(1,156,083)
Long-term debt, net of current maturities	$ 17,070,656	$ 18,284,960

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

	Hospital revenue bonds	Notes and leases payable	Total
Outstanding at January 1, 2020	$ 17,830,000	$ 556,703	$ 18,386,703
Issuance of long term debt		1,217,004	1,217,004
Principal payments	(780,000)	(592,086)	(1,372,086)
Outstanding at December 31, 2020	17,050,000	1,181,621	18,231,621
Principal payments	(800,000)	(362,380)	(1,162,380)
Outstanding at December 31, 2021	$ 16,250,000	$ 819,241	$ 17,069,241

Note E - Long-Term Debt - Continued

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

	Principal	Interest	Total
2022	$ 1,069,253	$ 677,432	$ 1,746,685
2023	1,104,803	641,908	1,746,711
2024	1,139,278	605,150	1,744,428
2025	965,907	561,703	1,527,610
2026	950,000	524,950	1,474,950
2027 - 2031	5,340,000	2,024,550	7,364,550
2032 - 2036	6,500,000	857,550	7,357,550
	$ 17,069,241	$ 5,893,243	$ 22,962,484

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

The indenture agreement for the bonds requires the Hospital to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the bond principal and interest on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The indenture agreement also includes certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, and level of fees and rates charged.

Note F - SBA PPP Loan Payable

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

Note G - Unearned CARES Act Revenue

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

The Hospital has determined that the conditions for lost revenues and allowable expenditures have been met for $5,232,134, and $4,443,241 of HHS provider relief funds, rural health clinic testing, and SPARK funds for the years ended December 31, 2021 and 2020, respectively . These amounts have, therefore, been recognized and are classified in the financial statements as COVID-19 grant revenue or capital grants and contributions during the years ended December 31, 2021 and 2020. The Hospital has recorded $1,085,527 and $3,827,267 of grant funds as unearned revenue at December 31, 2021 and 2020, respectively. The terms and conditions of these programs are complex and subject to interpretation and evolving guidance. As a result, there is a reasonable possibility that recorded amounts could change by a material amount in the near term.

Note H - Medicare Accelerated Payments

The Coronavirus Aid, Relief, and Economic Security Act, commonly referred to as the CARES Act, provided for a temporary expansion of Medicare's ability to provide accelerated advance payments due to claim disruption or unusual operating circumstances. In April 2020, the Hospital requested and received advances under this program in response to the coronavirus pandemic totaling $10,616,601. Medicare will recoup the payments by offsetting future claim and settlement payments due to the Hospital for services rendered to Medicare beneficiaries. The Continuing Appropriations Act, 2021 and Other Extensions Act amended the repayment (recoupment) terms of the accelerated payments. Recoupment began in April 2021 at the rate of 25 percent of Medicare payments. The recoupment rate will be 25 percent of Medicare payments from April 2021 through February 2022, that increase to 50 percent beginning in March 2022 for 6 months. If the full amount has not been recovered during the recoupment period, the remaining portion will be due in full on demand. If the demanded amount is not paid within 30 days, interest will be charged at 4 percent. The remaining balance of the accelerated advance payments are scheduled to be recouped during the year ending December 31, 2022. Therefore, all outstanding amounts are classified as current.

Note I - Defined Benefit Pension Plan

Plan description

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

Note I - Defined Benefit Pension Plan - Continued

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

Benefits

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

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

Members may choose one of seven payment options for their monthly retirement benefits. At retirement, a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions

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

KPERS has three benefit structures and funding depending on whether the employee is a Tier 1, Tier 2, or Tier 3 member. Tier 1 members were hired before July 1, 2009, Tier 2 members were first employed on or after July 1, 2009, and Tier 3 members were first employed on or after January 1, 2015. Kansas law establishes the KPERS member-employee contribution rate at 6 percent of covered salary for all members for 2021 and 2020, respectively. The employer rates established by statute at December 31, 2021 and 2020, are 8.87 percent and 8.61 percent, respectively.

The Hospital employer contributions to KPERS for the years ended December 31, 2021 and 2020, were $2,680,872 and $2,473,136, respectively, equal to the statutory required contributions for each year.

Note I - Defined Benefit Pension Plan - Continued

Employer and Nonemployer Allocations

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

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

To facilitate the separate (sub) actuarial valuations, the System maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The Hospital is included in the local group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The allocation percentages for the Hospital's share of the collective pension amounts as of December 31, 2021 and 2020, are based on the ratio of each employer's contributions to total employer and nonemployer contributions of the group for the years ended June 30, 2021 and 2020, respectively. The contributions used exclude contributions made for prior service, excess benefits, and irregular payments. As of December 31, 2021, the Hospital's proportion was 1.518 percent which was an increase of .03 percent from its share at December 31, 2020.

Net pension liability

At December 31, 2021 and 2020, the Hospital reported a liability of $18,214,327 and $25,745,143, respectively, for its proportionate share of the net pension liability.

Actuarial Assumptions

The total pension liability was determined by actuarial valuations as of December 31, 2020 and 2019, which were then rolled forward to June 30, 2021 and 2020, using the following actuarial assumptions:

Actuarial assumptions	2020	2019
Price inflation	2.75%	2.75%
Salary increases, including wage increases	3.25% - 12.00%	3.25% - 11.75%
Long-term rate of return net of investment expense and including price inflation	7.25%	7.50%

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

Note I - Defined Benefit Pension Plan - Continued

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

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

Discount Rate

The discount rates used to measure the total pension liability at the measurement date for 2021 and 2020 were 7.25 percent and 7.50 percent, respectfully. The actuarial assumptions used in the calculation of the total pension liability were based on the results of the most recent actuarial experience study. It covered the three-year period of January 1, 2016 through December 31, 2018.

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

The following table presents the net pension liability of the pension plan as of June 30, 2021, calculated using the discount rate of 7.25 percent, as well as what the pension plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current discount rate (7.25%)	1% Increase (8.25%)
Hospital's share of net pension liability	$ 29,960,800	$ 18,214,327	$ 8,363,422

Pension Expense

For the years ended December 31, 2021 and 2020, the Hospital recognized pension expense of $1,978,390 and $3,764,727, respectively, which includes the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Note I - Defined Benefit Pension Plan - Continued

Deferred Outflows of Resources and Deferred Inflows of Resources

A summary of the collective deferred outflows of resources and deferred inflows of resources at December 31, 2021 and 2020, are included in the tables below. Experience gains/losses and the impact of changes in actuarial assumptions or other inputs, if any, are recognized over the average expected remaining service life of the active and inactive plan members at the beginning of the measurement period. Investment gains and losses are recognized over a fixed five-year period.

	2021	2020
Deferred outflows of resources		
Differences between expected and actual experience	$ 718,961	$ 429,866
Changes of assumptions	3,585,512	1,550,712
Net difference between projected and actual earnings on pension plan investments		3,003,818
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	675,547	729,886
Employer contributions subsequent to the measurement date	1,301,797	1,181,538
Total deferred outflows of resources	$ 6,281,817	$ 6,895,820

	2021	2020
Deferred inflows of resources		
Differences between expected and actual experience	$ 164,923	$ 330,986
Net difference between projected and actual earnings on pension plan investments	6,467,857	
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	268,189	355,652
Total deferred inflows of resources	$ 6,900,969	$ 686,638

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2021, that will be recognized in pension expense in future years:

Year ended December 31,	Employer contributions subsequent to the measurement date	Recognition of net deferred outflows/(inflows) of resources by year	Total
2022	$ 1,301,797	$ (20,199)	$ 1,281,598
2023		(213,735)	(213,735)
2024		(398,125)	(398,125)
2025		(1,432,563)	(1,432,563)
2026		143,673	143,673
	$ 1,301,797	$ (1,920,949)	$ (619,152)

Note J - Other Postemployment Benefit Plan

Plan description and benefits provided

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

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

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

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

Covered employees

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

	2020	2019
Inactive employees or beneficiaries currently receiving benefit payments	8	7
Active employees	458	452
Total	466	459

Note J - Other Postemployment Benefit Plan - Continued

Total OPEB liability

At December 31, 2021 and 2020, the Hospital reported a total OPEB liability of $803,393 and $794,040, respectively.

Actuarial assumptions

The total OPEB liability was determined by actuarial valuations as of December 31, 2020 and 2019, which were then rolled forward to June 30, 2021 and 2020, using the following actuarial assumptions:

Actuarial assumptions	2020	2019
Price inflation	2.75%	2.75%
Wage inflation	3.00%	3.00%
Salary increases, including wage increases	3.50% - 10.00%	3.50% - 10.00%
Discount rate	2.16%	2.21%

In 2020 and 2019, mortality rates used for the death benefits were based on the RP-2014 Mortality Tables. Future mortality improvements were projected using Scales MP-2021 and MP-2020 in 2020 and 2019, respectively. Mortality rates used for disability benefits were included in long-term disability claim termination rates.

The actuarial assumptions used in the December 31, 2020 and 2019 valuations were based on the results of an actuarial experience study conducted for the period January 1, 2016 through December 31, 2018.

Changes in the total OPEB liability

	June 30, 2021	June 30, 2020
Liability at beginning of period	$ 794,040	$ 834,949
Changes for the year		
Service cost	107,603	100,722
Interest	18,994	31,339
Changes of economic/demographic gains or losses	(33,434)	(127,193)
Changes in assumptions or other inputs	985	35,454
Benefit payments	(84,795)	(81,231)
Net change in liability	9,353	(40,909)
Liability at end of period	$ 803,393	$ 794,040

Note J - Other Postemployment Benefit Plan - Continued

Sensitivity of the OPEB liability to changes in the discount rate

The following table presents the total OPEB liability as of June 30, 2021, calculated using the discount rate of 2.16 percent, as well as what the OPEB's liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.16 percent) or 1-percentage-point higher (3.16 percent) than the current rate:

	1% decrease (1.16%)	Current discount rate (2.16%)	1% increase (3.16%)
Total OPEB liability	$ 820,567	$ 803,393	$ 782,156

OPEB expense

For the years ended December 31, 2021 and 2020, the Hospital recognized OPEB expense of $91,783 and $100,472, respectively, which includes the changes in the total OPEB liability and the amortization of deferred outflows of resources and deferred inflows of resources for the period.

Deferred outflows and resources and deferred inflows of resources

A summary of the collective deferred outflows of resources and deferred inflows of resources related to the OPEB plan at December 31, 2021 and 2020, are included in the tables below.

	2021	2020
Deferred outflows of resources		
Differences between actual and expected experience	$ 15,417	$ 17,708
Changes in assumptions	36,399	40,171
Benefit payments subsequent to the measurement date	42,398	40,616
Total deferred outflows of resources	$ 94,214	$ 98,495
Deferred inflows of resources		
Differences between expected and actual experience	$ 257,230	$ 262,063
Changes of assumptions	17,670	21,265
Total deferred outflows of resources	$ 274,900	$ 283,328

Note J - Other Postemployment Benefit Plan - Continued

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2021, that will be recognized in OPEB expense in future years:

Year ended December 31,	Benefit payments subsequent to the measurement date	Recognition of net deferred outflows/(inflows) of resources by year	Total
2022	$ 42,398	$ (34,814)	$ 7,584
2023		(34,814)	(34,814)
2024		(34,814)	(34,814)
2025		(34,814)	(34,814)
2026		(33,930)	(33,930)
Thereafter		(49,898)	(49,898)
	$ 42,398	$ (223,084)	$ (180,686)

Note K - Employee Health Insurance Claims

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

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

	2021	2020
Estimated employee health insurance claims payable at beginning of period	$ 283,000	$ 417,000
Provision for employer's share of incurred claims expenses for the period	3,456,889	3,751,029
Employee contributions	1,253,563	1,281,948
Payments made for claims, expenses, and reinsurance	(4,688,452)	(5,166,977)
Estimated employee health insurance claims payable at end of period	$ 305,000	$ 283,000

Note L - Interest Expense

Total interest costs incurred are as follows:

	2021	2020
Total interest incurred	$ 711,229	$ 741,536
Amortization of bond premium	(138,754)	(145,585)
Amortization of deferred outflows on advance refunding	26,427	28,829
Amortization of prepaid bond insurance	8,790	9,223
Interest expense	$ 607,692	$ 634,003

Note M - Lease Commitments

Space is leased in the Hospital and the medical office building to various physicians and other medical professionals. Lease income for the years ended December 31, 2021 and 2020, was $597,161 and $597,704, respectively. Future minimum lease payments receivable under these agreements are not material to the financial statements.

The Hospital also leases property and equipment under various operating leases with related rentals charged to operations as incurred. Total rent expense for the years ended December 31, 2021 and 2020, was $335,045 and $297,230, respectively. Scheduled minimum rental payments for all noncancellable operating leases with remaining terms of one year or more are not material to the financial statements.

Note N - Deposits with Financial Institutions

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

The carrying amount of the Hospital's deposits with financial institutions was $26,612,602 and the bank balance was $27,258,776 at December 31, 2021.

The bank balance is categorized as follows:

Amount insured by the F.D.I.C., bank deposit guaranty bond, or collateralized with securities held by the Hospital in its name	$ 280,792
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	26,977,984
	$ 27,258,776

Note O - Concentration of Credit Risk

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

	2021	2020
Medicare	28 %	33 %
Medicaid	12	9
Blue Cross	21	16
Commercial insurance	17	18
Self-pay	22	24
	100 %	100 %

Note P - Risk Management

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $200,000 per occurrence up to an annual aggregate of $600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to $800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $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 $7,000,000 per occurrence with an aggregate amount in any policy year of $7,000,000. All coverage is on a claims-made basis. The above policies were renewed in January 2022 for the policy period from January 1, 2022 to January 1, 2023.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

Note Q - Receivables Sold with Recourse

The Hospital has an agreement with a local financial institution under which it sells the Hospital's interest in certain self-pay accounts receivable. Sales under this agreement in 2021 and 2020 amounted to approximately $138,000 and $195,000, respectively. At December 31, 2021 and 2020, approximately $246,000 and $301,000 of such receivables remained uncollected. The receivables are sold with full recourse, and the Hospital is contingently liable for any uncollected amounts. The Hospital has recorded a liability for receivables sold at December 31, 2021 and 2020, of $62,000 and $88,000, respectively.

Note R - Related Party Transactions

The Hospital paid $659,432 in 2021 to a company that is owned by a board member for patient account collection services.

Note S - Fair Value Measurements

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

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

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

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

The Hospital has the following recurring fair value measurements at December 31, 2021 and 2020, included under the caption of Assets Limited as to Use under bond indenture agreements held by trustee:

Money Market Treasury Fund of $711 and $0, respectively, are valued at unadjusted quoted prices (Level 1).

U.S. Government and Agency obligations of $1,726,261 and $1,354,622, respectively, are valued at prices provided by independent pricing services to the trustee (Level 2).

Note T - Assets Held in Community Foundation Custodian Account

On December 26, 2019, the Newman Hospital Regional Foundation (Foundation) entered into an agreement to transfer all of its cash and investments to the Emporia Community Foundation (ECF) which were used to establish a field of interest fund titled Newman Regional Health Fund (Fund). The Foundation was subsequently dissolved. An Advisory committee was established with the creation of the Fund that may recommend disbursements up to the value of the Fund for projects and programs within the scope of the Fund and donors. The market value of the assets held by ECF and held in a custodian account on behalf of the Hospital was $7,626,400 and $6,871,976 as of December 31, 2021 and 2020, respectively. During the years ended December 31, 2021 and 2020, the Hospital received contributions totaling $123,231 and $117,301, respectively. These amounts are reported in noncapital and capital grants and contributions.

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

Note U - Subsequent Events and Contingencies

On March 11, 2022, the Hospital entered into a five-year agreement with Coffey County Hospital d/b/a Coffey Health System to provide computer information services. Coffey County will reimburse the Hospital for the cost of the software modules needed to facilitate this arrangement along with the incremental additional labor cost of implementing and maintaining these information services.

Note U - Subsequent Events and Contingencies- Continued

On December 31, 2021, the Hospital entered into an agreement to purchase robotics surgical equipment at a total cost of $2,100,000. The Hospital intends to finance the purchase of this equipment with either grant funding or obtaining financing from a local bank.

Required Supplementary Information

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

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

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

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	$ 2,680,872	$ 2,473,136	$ 2,502,929	$ 2,333,228	$ 2,236,968	$ 2,188,919	$ 2,225,967	$ 1,916,622	$ 1,682,203	$ 1,561,800
Contributions in relation to the contractually required contribution	(2,680,872)	(2,473,136)	(2,502,929)	(2,333,228)	(2,236,968)	(2,188,919)	(2,225,967)	(1,916,622)	(1,682,203)	(1,561,800)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Hospital's covered-employee payroll	$ 30,224,036	$ 28,723,995	$ 28,154,432	$ 27,809,631	$ 26,441,702	$ 23,875,340	$ 22,679,072	$ 22,551,539	$ 21,110,604	$ 21,340,025
Contributions as a percentage of covered-employee payroll	8.87%	8.61%	8.89%	8.39%	8.46%	9.17%	9.82%	8.50%	7.97%	7.32%

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

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

Supplementary Information

Newman Memorial County Hospital
d/b/a Newman Regional Health
Schedule of Expenditures of Federal Awards
Year ended December 31, 2021

Federal grantor/pass-through grantor/program title	Assistance listing number	Pass-through entity identifying number	Passed through to subrecipients	Total federal expenditures
U.S. Department of Health and Human Services				
COVID-19 Provider Relief Funds	93.498	N/A	$ -	$ 7,601,990
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697	N/A		136,318
COVID-19 HRSA Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461	N/A		247,269
Passed through Healthworks KHA Foundation, Inc.				
COVID-19 Small Hospital Improvement Program	93.301	N/A		206,766
Total U.S. Department of Health and Human Services			-	8,192,343
U.S. Department of Treasury				
Passed through Lyon County, Kansas				
COVID-19 Coronavirus Relief Fund	21.019	N/A		33,654
Passed through the State of Kansas				
COVID-19 State and Local Fiscal Recovery Funds	21.027	N/A		147,250
Total U.S. Department of Treasury			-	180,904
Total federal awards			$ -	$ 8,373,247

Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to the Schedule of Expenditures of Federal Awards
Year ended December 31, 2021

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant award activity of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital) under programs of the federal government for the year ended December 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the Hospital, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hospital.

Note 2 - Significant Accounting Policies

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

Note 3 - Other Expenditures

The Hospital did not receive any other federal awards in the form of noncash assistance, insurance, loans, or loan guarantees and incurred no expenditures in relation thereof for the year ended December 31, 2021.

Note 4 - Indirect Cost Rate

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

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

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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
Newman Memorial County Hospital

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated June 28, 2022.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

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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 Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
June 28, 2022

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

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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
Newman Memorial County Hospital

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Newman Memorial County Hospital d/b/a Newman Regional Health's (the Hospital) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended December 31, 2021. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2021.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

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

Report on Internal Control over Compliance

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

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

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

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



Topeka, Kansas
June 28, 2022

Newman Memorial County Hospital
d/b/a Newman Regional Health
Schedule of Findings and Questioned Costs
Year ended December 31, 2021

Section I - Summary of Auditors' Results

Financial statements

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

Federal awards

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

Identification of major programs

CFDA Number	Name of Program
93.498	Provider Relief Fund

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

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None