

**Independent Auditor's Report and Financial Statements
Newman Memorial County Hospital
d/b/a Newman Regional Health
December 31, 2019 and 2018**

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**Newman Memorial County Hospital
d/b/a Newman Regional Health
Management's Discussion and Analysis
Years ended December 31, 2019 and 2018**

Our discussion and analysis of the financial performance of Newman Regional Health and our blended component unit, Newman Hospital Regional Foundation (Hospital), provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2019 and 2018. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital's net position decreased by \$8,671,585 or 72.3 percent in 2019 as compared to a decrease of \$920,153 or 7.1 percent in 2018. The decrease in 2019 includes an irrevocable gift of \$6,383,386 from the Newman Hospital Foundation to the Emporia Community Foundation (ECF) for the purpose of setting up a charitable fund to be administered by ECF. The Hospital no longer reports its interest in these funds in accordance with Governmental Accounting Standards (see Note R for additional disclosure).

The Hospital reported an operating loss of \$4,077,385 in 2019 compared to an operating loss of \$876,132 in 2018. Significant items that affected the change in this loss from 2018 to 2019 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?"

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Management's Discussion and Analysis - Continued
Years ended December 31, 2019 and 2018**

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets			
Current assets	\$ 16,426,372	\$ 19,280,904	\$ 18,522,569
Assets limited as to use	2,126,962	7,836,722	19,352,355
Capital assets, net	29,770,682	33,131,588	23,544,367
Other assets	<u>266,144</u>	<u>457,967</u>	<u>441,454</u>
Total assets	<u>48,590,160</u>	<u>60,707,181</u>	<u>61,860,745</u>
Deferred outflows related to advance debt refunding	<u>55,256</u>	<u>113,234</u>	<u>199,403</u>
Liabilities			
Current liabilities	7,580,021	10,433,750	9,312,063
Long-term debt obligations	<u>18,535,305</u>	<u>19,893,953</u>	<u>21,368,239</u>
Total liabilities excluding net pension and OPEB liabilities	<u>26,115,326</u>	<u>30,327,703</u>	<u>30,680,302</u>
Pension and OPEB liabilities net of deferred outflows and net deferred inflows of resources related to pension and OPEB plans	<u>19,203,035</u>	<u>18,494,072</u>	<u>18,461,053</u>
Net position	<u>\$ 3,327,055</u>	<u>\$ 11,998,640</u>	<u>\$ 12,918,793</u>

Our liquidity position when measured by the ratio of current assets to current liabilities was 2.2 in 2019, 1.8 in 2018, and 2.0 in 2017. Current assets decreased by \$2,854,532 in 2019 and increased by \$758,335 in 2018. Significant components of current assets are cash and cash equivalents and patient accounts receivable. Cash and cash equivalents totaled \$4.5 million in 2019 and \$4.6 million in 2018. The change in cash is due to the difference between cash generated from operations less the cash consumed by net capital and financing activities and cash provided by noncapital financing and investing activities. See the cash flow statement for more details of the components affecting cash. 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 47 days in 2019, 54 days in 2018, and 50 days in 2017.

Total liabilities, excluding the net pension and OPEB liabilities, decreased in 2019 by \$4,212,377 and decreased by \$352,599 in 2018. The change in 2019 as compared to 2018 was primarily related to a decrease in construction costs payable.

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Years ended December 31, 2019 and 2018**

The net pension and OPEB liabilities, deferred outflows, and inflows related to KPERS was \$19,203,035, \$18,494,072, and \$18,461,053 at December 31, 2019, 2018, and 2017. 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 2019, the Hospital's net position decreased by \$8,656,585, or 72.1 percent as shown in the following table. This decrease 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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenues			
Net patient service revenue	\$ 66,907,284	\$ 65,526,988	\$ 64,658,482
Electronic health records incentive revenue	3,402	1,928,759	88,709
Other operating revenue	<u>2,273,441</u>	<u>2,014,517</u>	<u>1,296,300</u>
Total operating revenue	<u>69,184,127</u>	<u>69,470,264</u>	<u>66,043,491</u>
Operating expenses			
Salaries and wages	31,747,822	31,407,212	30,964,127
Employee benefits	9,512,543	8,126,136	6,853,020
Supplies and other expenses	27,792,737	27,044,882	27,171,443
Depreciation and amortization	<u>4,208,410</u>	<u>3,768,166</u>	<u>3,488,426</u>
Total operating expenses	<u>73,261,512</u>	<u>70,346,396</u>	<u>68,477,016</u>
Operating loss	(4,077,385)	(876,132)	(2,433,525)
Interest expense	(651,401)	(351,739)	(378,662)
Property taxes	325,000	300,000	300,000
Other nonoperating revenues (expenses)	1,583,538	(161,094)	1,134,683
Capital grants and contributions	532,049	168,812	166,274
Transfer of net assets to community foundation	<u>(6,383,386)</u>	<u> </u>	<u> </u>
Change in net position	<u>\$ (8,671,585)</u>	<u>\$ (920,153)</u>	<u>\$ (1,211,230)</u>

The first component of the overall change in the Hospital's net position is the operating income - generally, the difference between operating revenues and expenses incurred to perform those services. The Hospital reported an operating loss of \$4,077,385 in 2019, a \$3,201,253 decrease as compared with 2018. There were three noticeable changes between 2019 and 2018 that affected the change in operating loss. The first relates to electronic health record incentive revenue recognized decreased by \$1,925,357 in 2019 as compared to 2018. This is due to the final implementation of the Hospital's software system in 2018. These revenues will not continue into the future as this program is no longer made available by Medicare. The second item affecting the change in operating results was the \$675,944 increase in actuarial adjustments

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Management's Discussion and Analysis - Continued
Years ended December 31, 2019 and 2018**

related to pension and other post-employment benefit expenses associated with our participation in the KPERS system. The third item of note was the \$440,244 increase in depreciation expense due to placing into service the emergency room remodeling project. These three items account for \$3,041,545 of the increase in the operating loss reported.

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 24 percent of gross revenues from inpatient services and 76 percent from outpatient and physician services. The Medicare program, which accounts for 52 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 2.1 percent in 2019 as compared to 2018, and by 1.3 percent in 2018 as compared to 2017. The change in net revenues is partially due to the conversion of our provider-based clinics to rural health clinic status which was effective for a full year in 2019. Total inpatient days of care (acute, intensive care, swing-bed, rehabilitation, and nursery) were 8,200, 8,562, and 7,691 in 2019, 2018, and 2017, respectively. Due to critical access hospitals being limited to the number of beds that it can make available for patient care, we expect that growth in the future will be from inpatient rehabilitation, outpatient, and physician services.

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 2019, 2018, and 2017, the Hospital recognized Medicaid DSH revenue of \$694,508, \$1,197,024, and \$758,939. 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 5.9 percent in 2019. This compares to 5.7 percent in 2018 and 6.1 percent in 2017. Total discounts granted to uninsured or charity care patients equaled \$3,187,242 in 2019 as compared to \$3,362,845 in 2018 and \$3,481,292 in 2017. We estimate that the total unreimbursed cost of providing services to amounts written off to bad debts, charity care, and uninsured discounts was approximately \$3,900,000 in 2019.

Salaries and benefits are significant components of operations. Total salaries and wages increased by 1.1 percent in 2019, 1.4 percent in 2018, and by 11.6 percent in 2017. 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 27.7, 25.8, and 21.8 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 increased approximately \$520,000 in 2019 and increased approximately \$1,100,000 in 2018 as compared to the prior year. Our KPERS cash funding (excluding the pension adjustment) was 8.9 percent, 8.4 percent, and 8.5 percent of covered salary in 2019, 2018, and 2017. As noted above, the effect of the actuarial determined pension and OPEB expense was \$708,963 in 2019, \$33,019 in 2018, and \$115,130 in 2017. Additional information related to the funding of our pension obligations can be found in the footnotes and supplementary information.

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Supplies and other expenses increased by \$747,855 or 2.8 percent in 2019 and decreased by \$126,561 or 0.5 percent in 2018, as compared to 2017. While we have experienced normal inflationary increases in the cost of goods and services each year, in 2019 we experienced increases in contract labor costs. These increases were offset by some specific operating decreases including the cost of implantable devices in 2019 due to volume decreases related to those services.

Depreciation and amortization expenses increased \$440,244 in 2019, increased by \$279,740 in 2018, and decreased by \$574,945 in 2017. 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 \$1,583,538 in 2019, (\$161,094) in 2018, and \$1,134,683 in 2017. The increase in 2019 was due to an increase in investment income of \$1,759,746 which was primarily due to the change in unrealized gains and losses on investments recognized by the Foundation. This was offset slightly by an increase in interest expense of approximately \$300,000 due to the construction project being completed and there were no capitalized interest costs in 2019 as compared to 2018.

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 as the Foundation was dissolved.

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

Independent Auditor's Report

Board of Trustees
Newman Memorial County Hospital

We have audited the accompanying financial statements of the business-type activity of Newman Memorial County Hospital d/b/a Newman Regional Health (the Hospital), a component unit of Lyon County, Kansas, as of and for the years ended December 31, 2019 and 2018, and related notes to the financial statements, which collectively comprise the Hospital's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the business-type activity of Newman Memorial County Hospital d/b/a Newman Regional Health as of December 31, 2019 and 2018, and the changes in net position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A2 and R, the Newman Hospital Regional Health Foundation was dissolved on December 26, 2019, and its remaining net assets were transferred to the Emporia Community Foundation. Our opinion is not modified with respect to that matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 5 be presented to supplement the financial statements. These standards also require that the pension and other postemployment information on pages 40 through 42 be included to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Wendling Noel Nelson & Johnson LLC

Topeka, Kansas
April 30, 2020

Financial Statements

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

Assets and Deferred Outflows of Resources

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 4,504,794	\$ 4,584,971
Assets limited as to use	57,929	2,127,066
Patient accounts receivable, net of estimated uncollectibles of \$2,852,100 in 2019 and \$3,014,100 in 2018	8,545,338	9,666,311
Other receivables	491,920	757,264
Inventories	1,790,023	1,697,221
Prepaid expenses	196,600	138,372
Estimated third-party payor settlements	<u>839,768</u>	<u>309,699</u>
Total current assets	<u>16,426,372</u>	<u>19,280,904</u>
Assets limited as to use		
Investments held by Foundation		5,255,552
Under bond indenture agreements - held by trustee less amounts required to meet current obligations	<u>2,126,962</u>	<u>2,581,170</u>
	<u>2,126,962</u>	<u>7,836,722</u>
Capital assets, net	<u>29,770,682</u>	<u>33,131,588</u>
Other assets		
Other receivables	180,306	362,484
Prepaid bond insurance	<u>85,838</u>	<u>95,483</u>
	<u>266,144</u>	<u>457,967</u>
Total assets	<u>48,590,160</u>	<u>60,707,181</u>
Deferred outflows of resources		
Pension	3,624,793	4,511,457
Other postemployment benefits	70,958	34,197
Loss on bond refunding	<u>55,256</u>	<u>113,234</u>
Total deferred outflows of resources	<u>3,751,007</u>	<u>4,658,888</u>
Total assets and deferred outflows of resources	<u>\$ 52,341,167</u>	<u>\$ 65,366,069</u>

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2019</u>	<u>2018</u>
Current liabilities		
Current maturities of long-term debt	\$ 1,206,403	\$ 1,328,337
Accounts payable and accrued expenses	2,462,296	4,646,373
Accrued salaries, vacation, benefits, and payroll taxes	3,190,345	3,070,513
Interest payable	57,833	59,721
Accrued health insurance claims	417,000	451,000
Estimated liability for receivables sold with recourse	96,000	113,000
Estimated third-party payor settlements	<u>150,144</u>	<u>764,806</u>
Total current liabilities	<u>7,580,021</u>	<u>10,433,750</u>
Long-term debt, net of current maturities	<u>18,535,305</u>	<u>19,893,953</u>
Other postemployment liability	<u>834,949</u>	<u>757,027</u>
Net pension liability	<u>21,188,245</u>	<u>21,158,290</u>
Total liabilities	<u>48,138,520</u>	<u>52,243,020</u>
Deferred inflows of resources		
Pension	680,918	904,057
Other postemployment benefits	<u>194,674</u>	<u>220,352</u>
Total deferred inflows of resources	<u>875,592</u>	<u>1,124,409</u>
Net position		
Net investment in capital assets	10,725,000	13,032,593
Restricted		
For debt service	1,510,932	1,693,747
For specific operating activities	19,785	4,763,517
Nonexpendable permanent endowments		618,081
Unrestricted	<u>(8,928,662)</u>	<u>(8,109,298)</u>
Total net position	<u>3,327,055</u>	<u>11,998,640</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 52,341,167</u>	<u>\$ 65,366,069</u>

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

	<u>2019</u>	<u>2018</u>
Operating revenues		
Net patient service revenue	\$ 66,907,284	\$ 65,526,988
Electronic health records incentive revenue	3,402	1,928,759
Other	<u>2,273,441</u>	<u>2,014,517</u>
Total operating revenues	<u>69,184,127</u>	<u>69,470,264</u>
Operating expenses		
Salaries and wages	31,747,822	31,407,212
Employee benefits	8,803,580	8,093,117
Actuarial adjustments for pension and OPEB expenses	708,963	33,019
Supplies and other expenses	27,792,737	27,044,882
Depreciation and amortization	<u>4,208,410</u>	<u>3,768,166</u>
Total operating expenses	<u>73,261,512</u>	<u>70,346,396</u>
Operating loss	<u>(4,077,385)</u>	<u>(876,132)</u>
Nonoperating revenues (expenses)		
Investment income (loss)	1,643,362	(116,384)
Interest expense	(651,401)	(351,739)
Noncapital grants and contributions	86,130	171,132
Property taxes	325,000	300,000
Other	<u>(145,954)</u>	<u>(215,842)</u>
Total nonoperating revenues (expenses)	<u>1,257,137</u>	<u>(212,833)</u>
Excess of expenses over revenues before capital grants and contributions and transfer of net assets	(2,820,248)	(1,088,965)
Capital grants and contributions	532,049	168,812
Transfer of net assets to community foundation	<u>(6,383,386)</u>	<u> </u>
Change in net position	<u>(8,671,585)</u>	<u>(920,153)</u>
Net position at beginning of year	<u>11,998,640</u>	<u>12,918,793</u>
Net position, end of year	<u>\$ 3,327,055</u>	<u>\$ 11,998,640</u>

The accompanying notes are an integral part of these statements.

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

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 66,866,526	\$ 65,523,894
Payments to or on behalf of employees	(40,103,570)	(39,617,343)
Payments to suppliers	(28,059,278)	(26,417,571)
Other receipts and payments	<u>2,362,365</u>	<u>2,080,331</u>
Net cash provided by operating activities	<u>1,066,043</u>	<u>1,569,311</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	86,130	171,132
Property taxes	325,000	300,000
Other	<u>(129,550)</u>	<u>(206,868)</u>
Net cash provided by noncapital financing activities	<u>281,580</u>	<u>264,264</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(2,978,792)	(11,106,769)
Grants and contributions for capital	532,049	168,812
Proceeds from sale of equipment	46,318	
Interest paid on capital related debt	(737,911)	(773,282)
Principal payments on long-term debt	<u>(1,328,337)</u>	<u>(1,292,262)</u>
Net cash used by capital and related financing activities	<u>(4,466,673)</u>	<u>(13,003,501)</u>
Cash flows from investing activities		
Change in assets limited as to use held by trustee under bond indenture agreement	2,523,311	9,342,711
Change in investments held by Foundation	(224,513)	(177,096)
Interest received	<u>740,075</u>	<u>694,308</u>
Net cash provided by investing activities	<u>3,038,873</u>	<u>9,859,923</u>
Change in cash and cash equivalents	(80,177)	(1,310,003)
Cash and cash equivalents at beginning of year	<u>4,584,971</u>	<u>5,894,974</u>
Cash and cash equivalents at end of year	<u>\$ 4,504,794</u>	<u>\$ 4,584,971</u>

The accompanying notes are an integral part of these statements.

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

	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (4,077,385)	\$ (876,132)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	4,208,410	3,768,166
Provision for bad debts	5,006,663	4,868,356
Changes in		
Patient accounts receivable	(3,885,690)	(5,688,087)
Inventories	(92,802)	21,088
Prepaid expenses	(58,228)	229,593
Accounts payable and accrued expenses	(29,679)	(884,726)
Estimated third-party payor settlements	(1,144,731)	815,637
Estimated liability for receivables sold	(17,000)	1,000
Other receivables	447,522	(718,603)
Net pension and OBEB liability, deferred inflows, and deferred outflows related to pension and OPEB liabilities	<u>708,963</u>	<u>33,019</u>
Net cash provided by operating activities	<u>\$ 1,066,043</u>	<u>\$ 1,569,311</u>
Supplemental schedule of noncash investing and financing activities		
Net change in unrealized gains and (losses) on investments	\$ 903,321	\$ (727,936)
Capital lease obligations incurred		12,742

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, 2019 and 2018**

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 1922, 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. Component unit

Newman Hospital Regional Health Foundation (the Foundation) is a not-for-profit corporation organized to carry out the purposes of the Hospital in betterment and enhancement of the health care services for the citizens of the community. The governing body of the Foundation is appointed by the Hospital and can be removed by the Hospital's board at will. The Hospital includes the Foundation as a component unit in the Hospital's financial statements using the blended method. The Foundation was dissolved on December 26, 2019, and its remaining assets were transferred to the Emporia Community Foundation (the Community Foundation), see Note R. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

3. 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.

4. Basis of accounting

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

5. 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 investments held by the Foundation or assets limited as to use under bond indenture agreements and held by trustee.

6. 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.

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

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

7. Inventories

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

8. 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.

9. Assets limited as to use

Assets limited as to use include assets held by a trustee under bond indenture agreements, and investments held by the Foundation.

10. 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.

11. Cost of borrowing

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

12. 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.

13. Accrued health insurance claims

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

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

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

14. 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.

15. 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.

16. Net position

The net position of the Hospital is classified in three components. "Net investment in capital assets net of related debt" consists of net capital assets and 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 or Foundation, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note D. "Unrestricted net position" is remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

17. 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.

18. Grants and contributions

From time to time, the Hospital and Foundation 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.

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

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

19. Property taxes

The County levies a property tax to support Hospital operations. The taxes are levied in November of each year with the Hospital receiving funds beginning in January of the following year. 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.

20. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code and the Foundation is exempt from income taxes pursuant to Section 501(c)(3).

21. 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.

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.

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note B - Net Patient Service Revenue - Continued

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

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

	<u>2019</u>	<u>2018</u>
Gross patient service revenue	\$ 138,444,178	\$ 144,711,878
Deductions from patient service revenue		
Third-party contractual adjustments	(63,964,333)	(72,098,706)
Medicaid DSH payments	694,508	1,197,024
Provision for bad debts	(5,006,663)	(4,868,356)
Charity care	(2,011,432)	(2,139,955)
Uninsured discounts	(1,175,810)	(1,222,890)
Other discounts and allowances	<u>(73,164)</u>	<u>(52,007)</u>
Net patient service revenue	<u>\$ 66,907,284</u>	<u>\$ 65,526,988</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 52 percent and 7 percent, respectively, of the Hospital's net patient revenue during 2019 and 46 percent and 5 percent, respectively, of the Hospital's net patient revenue during 2018. 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 \$958,000 and \$897,000 for 2019 and 2018, respectively.

Note C - Electronic Health Record Incentive Revenue

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. These provisions of ARRA are intended to promote the adoption and meaningful use of interoperable health information technology and qualified EHR technology.

The Hospital recognizes revenue for EHR incentive payments when it has reasonable assurance that it has demonstrated meaningful use of certified EHR technology for the applicable period and complied with the reporting conditions to receive the payment. The demonstration of meaningful use is based upon meeting a series of objectives and varies between hospital facilities and physician practices and between Medicare and Medicaid programs.

Additionally, meeting the objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by Centers for Medicare & Medicaid Services. The Hospital recognized \$3,402 and \$1,928,759 of revenue for EHR incentive payments during the years ended December 31, 2019 and 2018, respectively.

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note D - 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 F) and consist of the following:

	<u>2019</u>	<u>2018</u>
Principal and interest sinking fund	\$ 24,740	\$ 205,571
Interest receivable	7,743	7,777
Construction fund	640,770	3,014,489
Bond reserve fund	<u>1,511,638</u>	<u>1,480,399</u>
	<u>\$ 2,184,891</u>	<u>\$ 4,708,236</u>

Assets are invested by the trustee as follows:

	<u>2019</u>	<u>2018</u>
Cash	\$ 24,740	\$ -
Money Market Treasury fund	296,666	1,693,292
U.S. Government and Agency obligations at fair value	1,855,742	3,007,167
Interest receivable	<u>7,743</u>	<u>7,777</u>
	<u>\$ 2,184,891</u>	<u>\$ 4,708,236</u>

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

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note E - Capital Assets

	Balance December 31, <u>2018</u>	Transfers and additions	Retirements	Balance December 31, <u>2019</u>
Land	\$ 1,293,632	\$ -	\$ -	\$ 1,293,632
Land improvements	876,480			876,480
Buildings	49,227,876	(206,549)		49,021,327
Medical office building	11,611,344			11,611,344
Fixed equipment	11,105,977	(252,827)		10,853,150
Future expansion property	430,185			430,185
Rental property	561,321			561,321
Leasehold improvements	404,313		1,575	402,738
Major movable equipment	27,826,949	1,044,868	5,356,797	23,515,020
Intangibles	<u> </u>	<u>13,857</u>	<u> </u>	<u>13,857</u>
Totals at historical cost	<u>103,338,077</u>	<u>599,349</u>	<u>5,358,372</u>	<u>98,579,054</u>
Less accumulated depreciation and amortization for				
Land improvements	543,863	42,442		586,305
Buildings	29,869,561	1,536,518		31,406,079
Medical office building	8,204,094	222,156		8,426,250
Fixed equipment	9,268,382	317,886		9,586,268
Future expansion property	6,515	4,115		10,630
Rental property	50,493	22,453		72,946
Leasehold improvements	124,235	39,679	1,575	162,339
Major movable equipment	22,213,623	2,016,736	5,294,075	18,936,284
Intangibles	<u> </u>	<u>6,425</u>	<u> </u>	<u>6,425</u>
Total accumulated depreciation and amortization	<u>70,280,766</u>	<u>4,208,410</u>	<u>5,295,650</u>	<u>69,193,526</u>
Projects in progress	33,057,311	(3,609,061)	62,722	29,385,528
	<u>74,277</u>	<u>310,877</u>	<u> </u>	<u>385,154</u>
Capital assets, net	<u>\$ 33,131,588</u>	<u>\$ (3,298,184)</u>	<u>\$ 62,722</u>	<u>\$ 29,770,682</u>

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note E - Capital Assets - Continued

	Balance December 31, <u>2017</u>	Transfers and additions	Retirements	Balance December 31, <u>2018</u>
Land	\$ 1,293,632	\$ -	\$ -	\$ 1,293,632
Land improvements	876,480			876,480
Buildings	34,894,856	14,358,471	25,451	49,227,876
Medical office building	11,611,344			11,611,344
Fixed equipment	10,810,748	295,229		11,105,977
Future expansion property	430,185			430,185
Rental property	561,321			561,321
Leasehold improvements	404,313			404,313
Major movable equipment	<u>23,565,050</u>	<u>4,261,899</u>		<u>27,826,949</u>
Totals at historical cost	<u>84,447,929</u>	<u>18,915,599</u>	<u>25,451</u>	<u>103,338,077</u>
Less accumulated depreciation and amortization for				
Land improvements	500,144	43,719		543,863
Buildings	29,031,092	844,238	5,769	29,869,561
Medical office building	7,950,227	253,867		8,204,094
Fixed equipment	8,940,617	327,765		9,268,382
Future expansion property	2,400	4,115		6,515
Rental property	28,039	22,454		50,493
Leasehold improvements	84,555	39,680		124,235
Major movable equipment	<u>19,981,295</u>	<u>2,232,328</u>		<u>22,213,623</u>
Total accumulated depreciation and amortization	<u>66,518,369</u>	<u>3,768,166</u>	<u>5,769</u>	<u>70,280,766</u>
Projects in progress	<u>17,929,560</u> <u>5,614,807</u>	<u>15,147,433</u> <u>(5,540,530)</u>	<u>19,682</u>	<u>33,057,311</u> <u>74,277</u>
Capital assets, net	<u>\$ 23,544,367</u>	<u>\$ 9,606,903</u>	<u>\$ 19,682</u>	<u>\$ 33,131,588</u>

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note F - Long-Term Debt

Long-term debt obligations consist of the following:

	<u>2019</u>	<u>2018</u>
Lyon County, Kansas Public Building Commission, Newman Memorial County Hospital Refunding Revenue Bonds, Series 2016-A, issued October 31, 2016, in the original amount of \$19,970,000, 3.00% to 5.00% bonds due serially through December 1, 2036	\$ 17,830,000	\$ 18,585,000
2.50% Note payable to bank entered into May 14, 2013, in the original amount of \$3,000,000, payable in equal monthly installments of \$39,018, including interest, through August 14, 2020, collateralized by equipment with an amortized cost of \$19,938 at December 31, 2019	304,710	759,127
2.28% Lease payable to bank entered into December 15, 2016, in the original amount of \$583,708, payable in equal monthly installments of \$10,303, including interest, through December 15, 2021, collateralized by equipment with an amortized cost of \$359,783 at December 31, 2019	241,489	358,170
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 \$9,982 at December 31, 2019	<u>10,504</u>	<u>12,742</u>
	18,386,703	19,715,039
Add net unamortized premium on bonds	1,355,005	1,507,251
Less current maturities of long-term debt	<u>(1,206,403)</u>	<u>(1,328,337)</u>
Long-term debt, net of current maturities	<u>\$ 18,535,305</u>	<u>\$ 19,893,953</u>

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note F - Long-Term Debt - Continued

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

	Hospital revenue <u>bonds</u>	Notes and leases <u>payable</u>	<u>Total</u>
Outstanding at January 1, 2018	\$ 19,320,000	\$ 1,674,559	\$ 20,994,559
Issuance of long term debt		12,742	12,742
Principal payments	<u>(735,000)</u>	<u>(557,262)</u>	<u>(1,292,262)</u>
Outstanding at December 31, 2018	18,585,000	1,130,039	19,715,039
Principal payments	<u>(755,000)</u>	<u>(573,336)</u>	<u>(1,328,336)</u>
Outstanding at December 31, 2019	<u>\$ 17,830,000</u>	<u>\$ 556,703</u>	<u>\$ 18,386,703</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,206,403	\$ 705,909	\$ 1,912,312
2021	924,532	672,378	1,596,910
2022	827,504	646,773	1,474,277
2023	852,599	621,928	1,474,527
2024	875,665	596,354	1,472,019
2025 - 2029	4,935,000	2,427,350	7,362,350
2030 - 2034	6,030,000	1,334,300	7,364,300
2035 - 2036	<u>2,735,000</u>	<u>206,750</u>	<u>2,941,750</u>
	<u>\$ 18,386,703</u>	<u>\$ 7,211,742</u>	<u>\$ 25,598,445</u>

On March 1, 2010, the Lyon County Public Building Commission issued \$14,120,000 in Revenue Bonds, Series 2010-A, on behalf of the Hospital. The proceeds of the 2010 Bonds used together with other funds were used to refund the Series 2001-A, 2001-B, and 2002-A bonds and to pay costs related to the issuance of the 2010-A bonds. These bonds were legally defeased in 2016 when a portion of the proceeds from the 2016 bond issue was placed into a separate trust for the benefit of the 2010 bondholders.

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 is being 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.

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note F - Long-Term Debt - Continued

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 G - 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, etc seq. Substantially all employees of the Hospital are eligible to participate in KPERs. KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits.

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

Benefits

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

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

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

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note G - Defined Benefit Pension Plan - Continued

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 2019 and 2018, respectively. The employer rates established by statute at December 31, 2019 and 2018, are 8.89 percent and 8.39 percent, respectively.

The Hospital employer contributions to KPERS for the years ended December 31, 2019 and 2018, were \$2,502,929 and \$2,333,228, respectively, equal to the statutory required contributions for each year.

Employer and Nonemployer Allocations

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

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

To facilitate the separate (sub) actuarial valuations, the System maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The Hospital is included in the local group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The allocation percentages for the Hospital's share of the collective pension amounts as of December 31, 2019 and 2018, 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, 2019 and 2018, respectively. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. As of December 31, 2019, the Hospital's proportion was 1.516 percent which was a decrease of .002 percent from its share at December 31, 2018.

Net pension liability

At December 31, 2019 and 2018, the Hospital reported a liability of \$21,188,245 and \$21,158,290, respectively, for its proportionate share of the net pension liability.

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note G - Defined Benefit Pension Plan - Continued

Actuarial Assumptions

The total pension liability was determined by actuarial valuations as of December 31, 2018 and 2017, which were then rolled forward to June 30, 2019 and 2018, using the following actuarial assumptions:

<u>Actuarial assumptions</u>	<u>2018</u>	<u>2017</u>
Price inflation	2.75%	2.75%
Wage inflation	3.50%	3.50%
Salary increases, including wage increases	3.5% - 12.00%	3.5% - 12.00%
Long-term rate of return net of investment expense and including price inflation	7.75%	7.75%

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.

The actuarial assumptions used in the December 31, 2018 and 2017 valuations were based on the results of an actuarial experience study conducted for the period January 1, 2013 through December 31, 2015.

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 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, 2019, are summarized in the following table:

<u>Asset class</u>	<u>Long-term target allocation</u>	<u>Long-term expected real rate of return</u>
Global equity	47.00 %	6.85 %
Fixed income	13.00	1.25
Yield driven	8.00	6.55
Real return	11.00	1.71
Real estate	11.00	5.05
Alternatives	8.00	9.85
Short-term investments	<u>2.00</u>	(0.25)
Total	<u>100.00 %</u>	

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note G - Defined Benefit Pension Plan - Continued

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. The State, school, and local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the System's Board of Trustees for these groups may not increase by more than the statutory cap. The statutory cap for the year ended June 30, 2019, was 1.2 percent. The projection of cash flows used to determine the discount rates assumed that contributions from plan members will be made within the same range as have been made during the past few years.

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, 2019, calculated using the discount rate of 7.75 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 (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease <u>(6.75%)</u>	Current discount rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Hospital's share of net pension liability	\$ 31,645,087	\$ 21,188,245	\$ 12,441,286

Pension expense

For the years ended December 31, 2019 and 2018, the Hospital recognized pension expense of \$3,196,409 and \$2,320,754, 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.

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, 2019 and 2018, are included in the tables below. Experience gains/losses and the impact of changes in actuarial assumptions or other inputs, if any, are recognized over the average expected remaining service life of the active and inactive plan members at the beginning of the measurement period. Investment gains and losses are recognized over a fixed five-year period.

	<u>2019</u>	<u>2018</u>
Deferred outflows of resources		
Differences between expected and actual experience	\$ 46,380	\$ 76,390
Changes of assumptions	647,590	916,244
Net difference between projected and actual earnings on pension plan investments	498,494	494,959
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	1,265,767	1,934,926
Employer contributions subsequent to the measurement date	<u>1,166,562</u>	<u>1,088,938</u>
Total deferred outflows of resources	<u>\$ 3,624,793</u>	<u>\$ 4,511,457</u>

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note G - Defined Benefit Pension Plan - Continued

	<u>2019</u>	<u>2018</u>
Deferred inflows of resources		
Differences between expected and actual experience	\$ 533,609	\$ 599,531
Changes of assumptions	42,945	101,891
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	<u>104,364</u>	<u>202,635</u>
Total deferred inflows of resources	<u>\$ 680,918</u>	<u>\$ 904,057</u>

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2019, that will be recognized in pension expense in future years:

<u>Year ended December 31,</u>	Employer contributions subsequent to the measurement date	Recognition of net deferred outflows/(inflows) of resources by year	Total
2020	\$ 1,166,562	\$ 991,509	\$ 2,158,071
2021		238,596	238,596
2022		372,845	372,845
2023		179,301	179,301
2024		<u>(4,938)</u>	<u>(4,938)</u>
	<u>\$ 1,166,562</u>	<u>\$ 1,777,313</u>	<u>\$ 2,943,875</u>

Note H - 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.

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note H - Other Postemployment Benefit Plan - Continued

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

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

Covered employees

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

	<u>2018</u>	<u>2017</u>
Inactive employees or beneficiaries currently receiving benefit payments	9	7
Active employees	<u>446</u>	<u>436</u>
Total	<u>455</u>	<u>443</u>

Total OPEB liability

At December 31, 2019 and 2018, the Hospital reported a total OPEB liability of \$834,949 and \$757,027, respectively.

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note H - Other Postemployment Benefit Plan - Continued

Actuarial assumptions

The total OPEB liability was determined by actuarial valuations as of December 31, 2018 and 2017, which were then rolled forward to June 30, 2019 and 2018, using the following actuarial assumptions:

<u>Actuarial assumptions</u>	<u>2018</u>	<u>2017</u>
Price inflation	2.75%	2.75%
Wage inflation	3.00%	3.00%
Salary increases, including wage increases	3.50% - 10.00%	3.50% - 10.00%
Discount rate	3.50%	3.87%

In 2018 and 2017, mortality rates used for the death benefits were based on the RP-2014 Mortality Tables. Future mortality improvements were projected using Scales MP-2019 and MP-2018 in 2018 and 2017, respectively. Mortality rates used for disability benefits were included in long-term disability claim termination rates.

The actuarial assumptions used in the December 31, 2018 and 2017 valuations were based on the results of an actuarial experience study conducted for the period December 31, 2013 through December 31, 2015.

Changes in the total OPEB liability

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Liability at beginning of period	\$ 757,027	\$ 916,809
Changes for the year:		
Service cost	96,894	95,704
Interest	31,453	35,035
Changes of economic/demographic gains or losses	22,290	(213,980)
Changes in assumptions or other inputs	10,450	(8,148)
Benefit payments	<u>(83,165)</u>	<u>(68,393)</u>
Net change in liability	<u>77,922</u>	<u>(159,782)</u>
Liability at end of period	<u>\$ 834,949</u>	<u>\$ 757,027</u>

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note H - 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, 2019, calculated using the discount rate of 3.50 percent, as well as what the OPEB's liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.50 percent) or 1-percentage-point higher (4.50 percent) than the current rate:

	1% decrease <u>(2.50%)</u>	Current discount rate <u>(3.50%)</u>	1% increase <u>(4.50%)</u>
Total OPEB liability	\$ 861,794	\$ 834,949	\$ 806,295

OPEB expense

For the years ended December 31, 2019 and 2018, the Hospital recognized OPEB expense of \$106,034 and \$105,061, 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, 2019 and 2018, are included in the tables below.

	<u>2019</u>	<u>2018</u>
Deferred outflows of resources		
Differences between actual and expected experience	\$ 19,999	\$ -
Changes in assumptions	9,376	
Benefit payments subsequent to the measurement date	41,583	34,197
Total deferred outflows of resources	\$ 70,958	\$ 34,197
Deferred inflows of resources		
Differences between expected and actual experience	\$ 169,814	\$ 191,897
Changes of assumptions	24,860	28,455
Total deferred inflows of resources	\$ 194,674	\$ 220,352

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note H - Other Postemployment Benefit Plan - Continued

The following table provides the deferred outflows of resources and deferred inflows of resources as of December 31, 2019, that will be recognized in OPEB expense in future years:

<u>Year ended December 31,</u>	Benefit payments subsequent to the measurement date	Recognition of net deferred outflows/(inflows) of resources by year	<u>Total</u>
2020	\$ 41,583	\$ (22,313)	\$ 19,270
2021		(22,313)	(22,313)
2022		(22,313)	(22,313)
2023		(22,313)	(22,313)
2024		(22,313)	(22,313)
Thereafter		(53,734)	(53,734)
	<u>\$ 41,583</u>	<u>\$ (165,299)</u>	<u>\$ (123,716)</u>

Note I - 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 \$150,000 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained an insurance company as its agent to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts covered by reinsurance.

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

	<u>2019</u>	<u>2018</u>
Estimated employee health insurance claims payable at beginning of period	\$ 451,000	\$ 276,000
Provision for employer's share of incurred claims expenses for the period	3,495,934	3,339,927
Employee contributions	1,249,002	1,104,932
Payments made for claims, expenses, and reinsurance	<u>(4,778,936)</u>	<u>(4,269,859)</u>
Estimated employee health insurance claims payable at end of period	<u>\$ 417,000</u>	<u>\$ 451,000</u>

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note J - Interest Expense

Total interest costs incurred are as follows:

	<u>2019</u>	<u>2018</u>
Total interest incurred	\$ 736,023	\$ 771,445
Capitalized interest and amortization		(357,236)
Amortization of bond premium	(152,245)	(158,692)
Amortization of deferred outflows on advance refunding	57,978	86,169
Amortization of prepaid bond insurance	<u>9,645</u>	<u>10,053</u>
Interest expense	<u>\$ 651,401</u>	<u>\$ 351,739</u>

Note K - 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, 2019 and 2018, was \$598,092 and \$566,072, 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, 2019 and 2018, was \$268,740 and \$255,466, 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 L - 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 \$4,498,784 and the bank balance was \$4,809,330 at December 31, 2019.

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note L - Deposits with Financial Institutions - Continued

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	\$ 347,117
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)	<u>4,462,213</u>
	<u>\$ 4,809,330</u>

Note M - Concentration of Credit Risk

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

	<u>2019</u>	<u>2018</u>
Medicare	30 %	35 %
Medicaid	12	10
Blue Cross	16	18
Commercial insurance	14	13
Self-pay	<u>28</u>	<u>24</u>
	<u>100 %</u>	<u>100 %</u>

Note N - 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 2020 for the policy period from January 1, 2020 to January 1, 2021.

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.

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note O - 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 2019 and 2018 amounted to approximately \$194,000 and \$238,000, respectively. At December 31, 2019 and 2018, approximately \$332,000 and \$404,000 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, 2019 and 2018, of \$96,000 and \$113,000, respectively.

Note P - Investments Held by Foundation

The Foundation's investments are carried at fair market value. The investments are classified as available for sale. The cost and unrealized gains (losses) of the Foundation's investments for year ending December 31, 2018, are summarized as follows:

	<u>Cost</u>	<u>Gross unrealized gain (loss)</u>	<u>Estimated fair value</u>
Common stock mutual funds	\$ 2,330,058	\$ 32,983	\$ 2,363,041
Common stock	1,040,938	185,706	1,226,644
Fixed income mutual funds	321,214	(11,396)	309,818
U.S. Government and Agency obligations	620,417	(9,079)	611,338
Corporate bonds	<u>760,378</u>	<u>(15,667)</u>	<u>744,711</u>
	<u>\$ 5,073,005</u>	<u>\$ 182,547</u>	<u>\$ 5,255,552</u>

Note Q - 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 mutual funds, common stock mutual funds, common stock, fixed income mutual funds and REITs, are valued at unadjusted quoted prices for identical securities in active markets (Level 1 inputs).

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

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note Q - Fair Value Measurements - Continued

The following table sets forth, by level, the assets measured at fair value on a recurring basis for the Foundation for the year ended December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock mutual funds	\$ 2,363,041	\$ -	\$ -	\$ 2,363,041
Common stock	1,226,644			1,226,644
Fixed income mutual fund	309,818			309,818
U.S. Government and Agency obligations		611,338		611,338
Corporate bonds		<u>744,711</u>		<u>744,711</u>
Investments held by Foundation	<u>\$ 3,899,503</u>	<u>\$ 1,356,049</u>	<u>\$ -</u>	<u>\$ 5,255,552</u>

The Hospital has the following recurring fair value measurements at December 31, 2019 and 2018, included under the caption of Assets Limited as to Use under bond indenture agreements held by trustee:

Money Market Treasury Fund of \$296,666 and \$1,693,292, respectively, are valued at unadjusted quoted prices (Level 1).

U.S. Government and Agency obligations of \$1,855,742 and \$3,007,167, respectively, are valued at prices provided by independent pricing services to the trustee (Level 2).

Note R - Assets Held in Community Foundation Custodian Account

On December 20, 2019, The 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). An Advisory committee was established with the creation of the Fund that may recommend disbursements up to the value of the Fund for projects and programs within the scope of the Fund and donors. The market value of the assets held by ECF and held in a custodian account on behalf of the Hospital was \$6,055,478 as of December 31, 2019. 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 S - 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.

Subsequent to year-end, the Hospital has been negatively impacted by the effects of the worldwide coronavirus pandemic. The Hospital is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Hospital's financial position is not known.

Subsequent to year-end, the Hospital entered into a capital lease for on-site computer servers in the amount of \$716,000. The related maintenance costs associated with this agreement is expected to be \$329,200 over the five years following implementation.

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note T - Condensed Combining Information

Condensed financial data for the Hospital and its blended component unit as of and for the years ended December 31, 2019 and 2018:

	Statement of Net Position - 2019			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets				
Cash and cash equivalents	\$ 4,504,794	\$ -	\$ -	\$ 4,504,794
Other receivables	491,920			491,920
Other current assets	11,429,658			11,429,658
Capital assets	29,770,682			29,770,682
Other assets	2,393,106			2,393,106
Total assets	<u>48,590,160</u>	<u>-</u>	<u>-</u>	<u>48,590,160</u>
Deferred outflows of resources	<u>3,751,007</u>	<u>-</u>	<u>-</u>	<u>3,751,007</u>
Total assets and deferred outflows of resources	<u>\$ 52,341,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,341,167</u>
Liabilities				
Accounts payable and accrued expenses	\$ 2,462,296	\$ -	\$ -	\$ 2,462,296
Other current liabilities	5,117,725			5,117,725
Noncurrent liabilities	40,558,499			40,558,499
Total liabilities	<u>48,138,520</u>	<u>-</u>	<u>-</u>	<u>48,138,520</u>
Deferred inflows of resources	<u>875,592</u>	<u>-</u>	<u>-</u>	<u>875,592</u>
Net position				
Net invested in capital assets	10,725,000			10,725,000
Restricted				
For debt service	1,510,932			1,510,932
For specific operating activities	19,785			19,785
Unrestricted	<u>(8,928,662)</u>			<u>(8,928,662)</u>
Total net position	<u>3,327,055</u>	<u>-</u>	<u>-</u>	<u>3,327,055</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 52,341,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,341,167</u>

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note T - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2019			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenue				
Net patient service revenue	\$ 66,907,284	\$ -	\$ -	\$ 66,907,284
Other revenues	2,319,473		(42,630)	2,276,843
Total operating revenues	<u>69,226,757</u>	<u>-</u>	<u>(42,630)</u>	<u>69,184,127</u>
Operating expenses excluding depreciation and amortization	69,053,102			69,053,102
Depreciation and amortization	4,208,410			4,208,410
Total operating expenses	<u>73,261,512</u>	<u>-</u>	<u>-</u>	<u>73,261,512</u>
Operating loss	(4,034,755)		(42,630)	(4,077,385)
Nonoperating revenues (expenses)	310,956	903,551	42,630	1,257,137
Excess of revenues over (under) expenses	(3,723,799)	903,551		(2,820,248)
Capital grants and contributions	532,049			532,049
Transfer of net assets to community foundation		(6,383,386)		(6,383,386)
Change in net position	(3,191,750)	(5,479,835)	-	(8,671,585)
Net position at beginning of year	6,518,805	5,479,835		11,998,640
Ending net position	<u>\$ 3,327,055</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,327,055</u>
	Statement of Cash Flow - 2019			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net cash provided (used) by				
Operating activities	\$ 1,130,595	\$ (21,922)	\$ (42,630)	\$ 1,066,043
Noncapital financing activities	594,524	(355,574)	42,630	281,580
Capital and related financing activities	(4,466,673)			(4,466,673)
Investing activities	2,907,582	131,291		3,038,873
Net change in cash and cash equivalents	166,028	(246,205)	-	(80,177)
Cash and cash equivalents at beginning of year	4,338,766	246,205		4,584,971
Cash and cash equivalents at end of year	<u>\$ 4,504,794</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,504,794</u>

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note T - Condensed Combining Information - Continued

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

	Statement of Net Position - 2018			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets				
Cash and cash equivalents	\$ 4,338,766	\$ 246,205	\$ -	\$ 4,584,971
Other receivables	764,003	1,670	(8,409)	757,264
Other current assets	13,938,669			13,938,669
Investments held by Foundation		5,255,552		5,255,552
Capital assets	33,131,588			33,131,588
Other assets	3,039,137			3,039,137
Total assets	<u>55,212,163</u>	<u>5,503,427</u>	<u>(8,409)</u>	<u>60,707,181</u>
Deferred outflows of resources	4,658,888	-	-	4,658,888
Total assets and deferred outflows of resources	<u>\$ 59,871,051</u>	<u>\$ 5,503,427</u>	<u>\$ (8,409)</u>	<u>\$ 65,366,069</u>
Liabilities				
Accounts payable and accrued expenses	\$ 4,631,190	\$ 23,592	\$ (8,409)	\$ 4,646,373
Other current liabilities	5,787,377			5,787,377
Noncurrent liabilities	41,809,270			41,809,270
Total liabilities	<u>52,227,837</u>	<u>23,592</u>	<u>(8,409)</u>	<u>52,243,020</u>
Deferred inflows of resources	1,124,409	-	-	1,124,409
Net position				
Net investment in capital assets	13,032,593			13,032,593
Restricted				
For debt service	1,693,747			1,693,747
For specific operating activities	197	4,763,320		4,763,517
Nonexpendable permanent endowments		618,081		618,081
Unrestricted	(8,207,732)	98,434		(8,109,298)
Total net position	<u>6,518,805</u>	<u>5,479,835</u>	<u>-</u>	<u>11,998,640</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 59,871,051</u>	<u>\$ 5,503,427</u>	<u>\$ (8,409)</u>	<u>\$ 65,366,069</u>

**Newman Memorial County Hospital
d/b/a Newman Regional Health
Notes to Financial Statements - Continued
December 31, 2019 and 2018**

Note T - Condensed Combining Information - Continued

	Statements of Revenues, Expenses, and Changes in Net Position - 2018			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenue				
Net patient service revenue	\$ 65,526,988	\$ -	\$ -	\$ 65,526,988
Other revenues	4,032,596		(89,320)	3,943,276
Total operating revenues	<u>69,559,584</u>	<u>-</u>	<u>(89,320)</u>	<u>69,470,264</u>
Operating expenses excluding depreciation and amortization	66,578,230			66,578,230
Depreciation and amortization	3,767,572	594		3,768,166
Total operating expenses	<u>70,345,802</u>	<u>594</u>	<u>-</u>	<u>70,346,396</u>
Operating loss	(786,218)	(594)	(89,320)	(876,132)
Nonoperating revenues (expenses)	271,699	(573,852)	89,320	(212,833)
Excess of revenues over (under) expenses	(514,519)	(574,446)		(1,088,965)
Capital grants and contributions	168,812			168,812
Change in net position	(345,707)	(574,446)	-	(920,153)
Beginning net position	6,864,512	6,054,281		12,918,793
Ending net position	<u>\$ 6,518,805</u>	<u>\$ 5,479,835</u>	<u>\$ -</u>	<u>\$ 11,998,640</u>
	Statement of Cash Flow - 2018			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net cash provided (used) by				
Operating activities	\$ 1,658,631	\$ -	\$ (89,320)	\$ 1,569,311
Noncapital financing activities	358,817	(183,873)	89,320	264,264
Capital and related financing activities	(13,003,501)			(13,003,501)
Investing activities	9,690,088	169,835		9,859,923
Net change in cash and cash equivalents	(1,295,965)	(14,038)	-	(1,310,003)
Cash and cash equivalents at beginning of year	5,634,731	260,243		5,894,974
Cash and cash equivalents at end of year	<u>\$ 4,338,766</u>	<u>\$ 246,205</u>	<u>\$ -</u>	<u>\$ 4,584,971</u>

Required Supplementary Information

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Hospital's proportion of the net pension liability	1.5163%	1.5180%	1.4379%	1.4021%	1.3113%	1.3564%	1.2942%
Hospital's proportionate share of the net pension liability	\$ 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	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	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	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**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Contractually required contribution	\$ 2,502,929	\$ 2,333,228	\$ 2,236,968	\$ 2,188,919	\$ 2,225,967	\$ 1,916,622	\$ 1,682,203	\$ 1,561,800	\$ 1,435,114	\$ 1,240,400
Contributions in relation to the contractually required contribution	<u>(2,502,929)</u>	<u>(2,333,228)</u>	<u>(2,236,968)</u>	<u>(2,188,919)</u>	<u>(2,225,967)</u>	<u>(1,916,622)</u>	<u>(1,682,203)</u>	<u>(1,561,800)</u>	<u>(1,435,114)</u>	<u>(1,240,400)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	<u>\$ 28,154,432</u>	<u>\$ 27,809,631</u>	<u>\$ 26,441,702</u>	<u>\$ 23,875,340</u>	<u>\$ 22,679,072</u>	<u>\$ 22,551,539</u>	<u>\$ 21,110,604</u>	<u>\$ 21,340,025</u>	<u>\$ 21,239,066</u>	<u>\$ 20,201,477</u>
Contributions as a percentage of covered-employee payroll	8.89%	8.39%	8.46%	9.17%	9.82%	8.50%	7.97%	7.32%	6.76%	6.14%

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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Service cost	\$ 96,894	\$ 95,704	\$ 93,936
Interest on total OPEB liability	31,453	35,035	27,344
Effect of economic/demographic gains or losses	22,290	(213,980)	
Effect of assumption changes or inputs	10,450	(8,148)	(26,656)
Benefit payments	<u>(83,165)</u>	<u>(68,393)</u>	<u>(86,043)</u>
Net change in total OPEB liability	<u>77,922</u>	<u>(159,782)</u>	<u>8,581</u>
Total OPEB liability, beginning	<u>757,027</u>	<u>916,809</u>	<u>908,228</u>
Total OPEB liability, ending	<u>\$ 834,949</u>	<u>\$ 757,027</u>	<u>\$ 916,809</u>
Covered payroll	\$ 26,426,000	\$ 25,904,000	\$ 23,561,000
Total OPEB liability as a % of covered payroll	3.16%	2.92%	3.89%