Ness County Hospital District No. 2

Independent Auditor's Report and Financial Statements

December 31, 2023 and 2022

forvis mazars

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Independent Auditor's Report

Board of Directors
Ness County Hospital District No. 2
Ness City, Kansas

Opinion

We have audited the financial statements of Ness County Hospital District No. 2 as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise Ness County Hospital District No. 2's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Ness County Hospital District No. 2 as of December 31, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of Ness County Hospital District No. 2 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ness County Hospital District No. 2's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ness County Hospital District No. 2's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ness County Hospital District No. 2's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Ness County Hospital District No. 2's basic financial statements. The supplementary schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Forvis Mazars, LLP

Wichita, Kansas
June 21, 2024

Ness County Hospital District No. 2
Balance Sheets
December 31, 2023 and 2022

	2023	2022
Assets		
Current Assets		
Cash	$ 2,553,724	$ 4,350,991
Short-term certificates of deposit	1,279,061	58,876
Restricted cash	40,226	40,226
Patient accounts receivable, net of allowance; 2023 - $423,000, 2022 - $319,000	2,304,996	1,958,771
Property taxes receivable	1,874,165	1,756,744
Grant receivable	-	257,367
Supplies	282,450	286,108
Prepaid expenses and other	182,240	114,522
Total current assets	8,516,862	8,823,605
Long-term Certificates of Deposit	-	74,652
Cash Held in Capital Assets Project Fund	-	3,984
Capital Assets, Net	5,094,625	5,741,434
Lease Assets, Net	444,566	-
Subscription Assets, Net	1,512,243	-
Other Assets - Farm Land	156,142	156,142
Total assets	$ 15,724,438	$ 14,799,817

See Notes to Financial Statements

	2023	2022
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 319,564	$ 310,179
Current maturities of lease liabilities	84,554	-
Current maturities of subscription liabilities	301,667	-
Accounts payable	704,538	431,249
Accrued expenses	659,039	549,770
Estimated amounts due to Medicare	80,000	495,000
Total current liabilities	2,149,362	1,786,198
Other Liabilities		
Long-term debt	1,565,473	1,885,049
Lease liabilities	361,614	-
Subscription liabilities	1,220,918	-
Total other liabilities	3,148,005	1,885,049
Total liabilities	5,297,367	3,671,247
Deferred Inflows of Resources - Property Taxes	1,874,165	1,756,744
Net Position		
Net investment in capital assets	3,197,644	3,550,190
Restricted – expendable for specific operating activities	40,226	40,226
Unrestricted	5,315,036	5,781,410
Total net position	8,552,906	9,371,826
Total liabilities, deferred inflows of resources and net position	$ 15,724,438	$ 14,799,817

Ness County Hospital District No. 2
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2023 - $275,753, 2022 - $238,670	$ 12,457,410	$ 9,402,617
Other	1,244,444	1,359,354
Total operating revenues	13,701,854	10,761,971
Operating Expenses		
Salaries and wages	5,588,127	4,702,788
Employee benefits	1,587,116	1,450,123
Purchased services and professional fees	5,309,401	2,977,605
Supplies and other	3,011,295	2,730,595
Depreciation and amortization	913,711	731,037
Total operating expenses	16,409,650	12,592,148
Operating Loss	(2,707,796)	(1,830,177)
Nonoperating Revenues (Expenses)		
Property taxes	1,864,196	1,617,061
Interest income	57,646	12,112
Interest expense	(88,801)	(66,825)
Noncapital grants and gifts	55,512	375,763
Provider Relief Funds (*CARES Act*)	-	325,335
Farm income	2,484	26,565
Farm expense	(2,161)	(4,472)
Total nonoperating revenues	1,888,876	2,285,539
Increase (Decrease) in Net Position	(818,920)	455,362
Net Position, Beginning of Year	9,371,826	8,916,464
Net Position, End of Year	$ 8,552,906	$ 9,371,826

Ness County Hospital District No. 2
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	$ 11,953,552	$ 8,933,775
Payments to suppliers and contractors	(8,111,467)	(5,784,365)
Payments to and on behalf of employees	(7,065,974)	(6,382,191)
Other receipts, net	1,244,444	1,186,354
Net cash used in operating activities	(1,979,445)	(2,046,427)
Cash Flows From Noncapital Financing Activities		
Property taxes	1,864,196	1,617,061
Noncapital grants and gifts	55,512	375,763
Provider Relief Funds (*CARES Act*)	-	325,335
Net cash provided by noncapital financing activities	1,919,708	2,318,159
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(310,191)	(301,091)
Principal paid on leases payable	(13,728)	-
Principal paid on subscription liability	(127,135)	-
Interest paid on long-term debt	(63,426)	(66,825)
Interest paid on leases payable	(3,416)	-
Interest paid on subscription liability	(21,959)	-
Purchase of capital assets	(114,095)	(483,314)
Net cash used in capital and related financing activities	(653,950)	(851,230)
Cash Flows From Investing Activities		
Interest income received	57,646	12,112
Purchase of certificates of deposit	(1,145,533)	(184)
Farm income received	2,484	26,565
Farm expenses paid	(2,161)	(4,472)
Net cash provided by (used in) investing activities	(1,087,564)	34,021
Decrease in Cash	(1,801,251)	(545,477)
Cash, Beginning of Year	4,395,201	4,940,678
Cash, End of Year	$ 2,593,950	$ 4,395,201

Ness County Hospital District No. 2
Statements of Cash Flows (Continued)
Years Ended December 31, 2023 and 2022

	2023	2022
Reconciliation of Cash to the Balance Sheets		
Cash	$ 2,553,724	$ 4,350,991
Restricted cash	40,226	40,226
Cash held in capital asset project fund	-	3,984
Total cash	$ 2,593,950	$ 4,395,201
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (2,707,796)	$ (1,830,177)
Depreciation and amortization	913,711	731,037
Changes in operating assets and liabilities		
Patient accounts receivable, net	(346,225)	595,314
Estimated amounts due from and to Medicare	(157,633)	292,633
Accounts payable and accrued expenses	382,558	(204,106)
Medicare advance	-	(1,356,789)
Unearned revenue	-	(173,000)
Other assets and liabilities	(64,060)	(101,339)
Net cash used in operating activities	$ (1,979,445)	$ (2,046,427)
Noncash Investing, Capital and Financing Activities		
Lease obligations incurred for lease assets	$ 2,109,616	$ -

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Ness County Hospital District No. 2 (Hospital) is an acute care hospital located in Ness City, Kansas. The Hospital is operated by a Board of Directors elected by the qualified voters of the District. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Ness County area. It also operates a home health agency in the same geographic area.

The Ness County Healthcare Foundation (Foundation) is a legally separate, tax-exempt, not-for-profit organization whose purpose is to raise and hold funds to support the Hospital and its programs. The Board of Directors of the Hospital appoints a voting majority of the Board of the Foundation resulting in the Hospital being financially accountable for the Foundation with the Foundation being included in the Hospital's financial statements as a blended component unit.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as property taxes, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2023 and 2022, there were no cash equivalents.

Certificates of Deposit

Certificates of deposit are reported at cost, which approximates fair value. Certificates of deposit with maturities of less than one year are reported as current assets. Those with maturities greater than one year are reported as long-term.

Property Taxes

The Hospital received approximately 12% of its financial support from property taxes in 2023 and 2022. One hundred percent of these funds were used to support operations.

Property taxes are levied in November of one year and are received beginning in January of the following year. Property tax revenue is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost or market. Costs are determined using the first-in, first-out (FIFO) method.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under financed purchase obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 – 20 years
Buildings	10 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	5 – 15 years

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at, and certain prepayments made before, the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Capital, Lease, and Subscription Asset Impairment

The Hospital evaluates capital, lease, and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital, lease, or subscription asset has occurred. If a capital, lease, or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation or accumulated amortization is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2023 and 2022.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Deferred Inflows of Resources

The Hospital reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its balance sheets. Deferred inflows of resources consist of property taxes levied for use in future periods.

Net Position

Net position of the Hospital is classified in three components on its balance sheets.

- Net investment in capital, lease, and subscription assets consists of capital, lease, and subscription assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by grantors or donors external to the Hospital.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The costs of charity care provided under the Hospital's charity care policy were $127,385 and $28,478 for 2023 and 2022, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Provider Relief Funds (CARES Act)

On March 27, 2020, the *CARES Act* was signed into law as part of the government's response to the spread of the SARS-CoV-2 virus and the incidence of COVID-19. The *CARES Act* contained provisions for certain healthcare providers to receive Provider Relief Funds (PRF) from the U.S. Department of Health and Human Services (HHS). The distributions from the Provider Relief Funds are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS. The Hospital is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions required to retain the funds have been met and are classified as nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position.

Income Taxes

As an essential government entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Note 2. Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital is recognized as a critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Home health services are paid on a per-episode basis using clinical diagnostic and other factors.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future.

Services rendered for long-term care facility residents are reimbursed under a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are adjusted on July 1 and January 1 using an average of the three previously filed annual cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 73% and 67% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2023 and 2022, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3. Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2023 and 2022, none of the Hospital's bank balances of $4,099,811 and $4,501,970, respectively, were exposed to custodial credit risk.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2023	2022
Carrying value		
Deposits – Hospital	$ 3,709,988	$ 4,359,980
Petty cash	581	581
	3,710,569	4,360,561
Deposits – Foundation	162,442	168,168
	$ 3,873,011	$ 4,528,729
Included in the following balance sheet captions:		
Cash	$ 2,553,724	$ 4,350,991
Short-term certificates of deposit	1,279,061	58,876
Restricted cash	40,226	40,226
Long-term certificates of deposit	-	74,652
Cash held in capital asset project fund	-	3,984
	$ 3,873,011	$ 4,528,729

Note 4. Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	2023	2022
Medicare	$ 1,368,305	$ 1,139,091
Medicaid	155,142	178,781
Blue Cross	188,567	211,619
Other third-party payers	211,819	200,775
Patients	804,163	547,505
	2,727,996	2,277,771
Less allowance for uncollectible accounts	423,000	319,000
	$ 2,304,996	$ 1,958,771

Note 5. Capital, Lease, and Subscription Assets

Capital assets activity for the years ended December 31 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 185,889	$ -	$ -	$ -	$ 185,889
Land improvements	497,915	-	-	-	497,915
Buildings	6,070,357	17,414	-	-	6,087,771
Fixed equipment	4,385,567	24,500	(6,581)	-	4,403,486
Major moveable equipment	3,549,106	55,723	(14,411)	12,250	3,602,668
Construction in progress	12,250	16,458	-	(12,250)	16,458
	14,701,084	114,095	(20,992)	-	14,794,187
Less accumulated depreciation					
Land improvements	260,419	20,026	-	-	280,445
Buildings	4,104,439	150,912	-	-	4,255,351
Fixed equipment	2,371,732	280,785	(6,581)	-	2,645,936
Major moveable equipment	2,223,060	309,181	(14,411)	-	2,517,830
	8,959,650	760,904	(20,992)	-	9,699,562
Capital Assets, Net	$ 5,741,434	$ (646,809)	$ -	$ -	$ 5,094,625

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 115,387	$ 70,502	$ -	$ -	$ 185,889
Land improvements	494,194	3,721	-	-	497,915
Buildings	6,173,257	11,411	(210,954)	96,643	6,070,357
Fixed equipment	4,420,718	6,159	(46,565)	5,255	4,385,567
Major moveable equipment	3,361,543	277,373	(89,810)	-	3,549,106
Construction in progress	-	114,148	-	(101,898)	12,250
	14,565,099	483,314	(347,329)	-	14,701,084
Less accumulated depreciation					
Land improvements	240,539	19,880	-	-	260,419
Buildings	4,163,891	151,502	(210,954)	-	4,104,439
Fixed equipment	2,137,579	280,718	(46,565)	-	2,371,732
Major moveable equipment	2,033,933	278,937	(89,810)	-	2,223,060
	8,575,942	731,037	(347,329)	-	8,959,650
Capital Assets, Net	$ 5,989,157	$ (247,723)	$ -	$ -	$ 5,741,434

Lease assets activity for the year ended December 31 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Lease Assets	$ -	$ 459,896	$ -	$ -	$ 459,896
Less accumulated amortization					
Lease Assets	-	15,330	-	-	15,330
Lease Assets, Net	$ -	$ 444,566	$ -	$ -	$ 444,566

Subscription assets activity for the year ended December 31 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription IT assets	$ -	$ 1,649,720	$ -	$ -	$ 1,649,720
Less accumulated amortization Subscription IT assets	-	137,477	-	-	137,477
Subscription Assets, Net	$ -	$ 1,512,243	$ -	$ -	$ 1,512,243

Note 6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	2023	2022
Payable to suppliers and contractors	$ 733,187	$ 460,406
Payable to employees (including payroll taxes and benefits)	630,390	520,613
	$ 1,363,577	$ 981,019

Note 7. Medical Malpractice Coverage and Claims

The Hospital purchases professional liability insurance under a claims-made policy with a fixed premium which provides $500,000 of coverage for each medical incident and $1,500,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional $500,000 of coverage for each medical incident and $1,500,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Note 8. Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2023				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Financed purchase obligations	$ 2,195,228	$ -	$ 310,191	$ 1,885,037	$ 319,564
Lease liabilities	-	459,896	13,728	446,168	84,554
Subscription liabilities	-	1,649,720	127,135	1,522,585	301,667
Total long-term debt	$ 2,195,228	$ 2,109,616	$ 451,054	$ 3,853,790	$ 705,785

	2022				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Financed purchase obligations	$ 2,496,319	$ -	$ 301,091	$ 2,195,228	$ 310,179
Total long-term debt	$ 2,496,319	$ -	$ 301,091	$ 2,195,228	$ 310,179

Financed Purchase Obligations

The Hospital is obligated under agreements for equipment that are accounted for as financed purchase obligations.

The following is a schedule by year of future minimum payments under the financed purchase obligation including interest at 2.90% to 3.95% together with the present value of the future minimum payments as of December 31, 2023:

Year Ending December 31,	
2024	$ 374,125
2025	355,847
2026	337,569
2027	337,569
2028	337,569
Thereafter	335,569
Total minimum lease payments	2,078,248
Less amount representing interest	193,211
Present value of future minimum lease payments	$ 1,885,037

Lease Liability

The Hospital leases equipment, the term of which expires in 2028.

The following is a schedule by year of payments under the lease as of December 31, 2023:

Year Ending December 31	Total To Be Paid	Principal	Interest
2024	$ 102,861	$ 84,554	$ 18,307
2025	102,861	88,430	14,431
2026	102,861	92,483	10,378
2027	102,861	96,722	6,139
2028	85,717	83,979	1,738
	$ 497,161	$ 446,168	$ 50,993

Subscription Liability

The Hospital has one subscription-based information technology arrangement (SBITA), the term of which expires in 2028. The subscription requires monthly payments of approximately $30,000.

The following is a schedule by year of payments under the SBITA as of December 31, 2023:

Year Ending December 31	Total To Be Paid	Principal	Interest
2024	$ 359,316	$ 301,667	$ 57,649
2025	362,909	318,121	44,788
2026	366,538	335,309	31,229
2027	370,204	353,263	16,941
2028	217,206	214,225	2,981
	$ 1,676,173	$ 1,522,585	$ 153,588

Note 9. Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 4% each for 2023 and 2022, plus any voluntary contributions up to the federal Internal Revenue Service limit established at an annual basis. Contributions actually made by plan members and the Hospital aggregated $153,129 and $110,345 during 2023 and $112,131 and $105,319 during 2022, respectively. The Hospital does not control the plan assets.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Employee contributions to the plan voluntary. Contributions made by plan members totaled $41,769 and $41,668 during 2023 and 2022, respectively. The plan year begins on January 1 and ends December 31. The Hospital does not control the plan assets.

Note 10. Assets Held in Trust

The Hospital is a contingent income beneficiary of a trust. Because the assets of the trust are not controlled by the Hospital, they are not included in the Hospital's financial statements. Distributions of income are made at the discretion of the trustees. Income distributed to the Hospital by the trust amounted to $14,577 in 2023 and $14,447 in 2022.

Note 11. *CARES Act* Funding

Provider Relief Fund

During the year ended 2022, the Hospital received $152,335 of distributions from the *CARES Act* Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Hospital is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by HHS.

The Hospital accounts for such payments as voluntary nonexchange transactions. Payments are recognized as revenue once the applicable terms and conditions to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Hospital's operating revenues and expenses through December 31, 2022, the Hospital recognized $325,335 related to the Provider Relief Fund, and these payments are recorded as Provider Relief Funds (*CARES Act*), classified as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position. There is no remaining unrecognized amount of Provider Relief Fund distributions in the accompanying balance sheets for the year ended December 31, 2022.

The Hospital will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the Hospital's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the Hospital is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the Hospital's Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Other COVID-19 Funding

During the year ended December 31, 2022, the Coronavirus Small Rural Hospital Improvement Program (SHIP) provided support to small rural and Critical Access Hospitals (CAHs) which were seeing increased demands for clinical services and equipment, as well as experiencing short-term financial and workforce challenges related to responding to meeting the needs of patients with COVID-19 seeking care at their facilities. These funds were administered through the Small Rural Hospital Improvement Program to provide emergency funding support to CAHs and non-CAH rural hospitals with less than 50 beds. This approach provided funding directly to the states to target those rural hospitals and the communities they serve who are facing the greatest strain from this crisis.

The Hospital recognized $257,367 for the year ended December 31, 2022 related to this SHIP grant. The recognition is recorded as a component of noncapital grants and gifts in the accompanying statements of revenues, expenses and changes in net position.

Medicare Accelerated and Advanced Payment Program

During the year ended December 31, 2020, the Hospital requested accelerated Medicare payments as provided for in the *CARES Act*, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions and are reflected as Medicare advance on the balance sheets.

The payback provisions begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25% of the remittance advice payment followed by a six-month payback period at 50% of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withheld amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 months at a rate of 4%.

During the year ended December 31, 2020, the Hospital received $2,116,389 from the accelerated Medicare payment request. During the year ended December 31, 2022, Medicare applied $1,356,789 from these accelerated Medicare payment requests against filed claims. All payments were recouped as of December 31, 2022.

Note 12. 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of $983,081 and $1,123,416 for the years ending December 31, 2023 and 2022, respectively, which is included in other operating revenue in the accompanying statements of revenues and expenses and changes in net position. The Hospital recorded expenses of $590,821 and $692,719 for the years ending December 31, 2023 and 2022, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 13. Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2023 and 2022:

	December 31, 2023		
	Hospital	Foundation	Total
Assets			
Current assets	$ 8,354,420	$ 162,442	$ 8,516,862
Capital, lease and subscription assets, net	7,051,434	-	7,051,434
Other assets	-	156,142	156,142
Total assets	$ 15,405,854	$ 318,584	$ 15,724,438
Liabilities			
Current liabilities	$ 2,149,362	$ -	$ 2,149,362
Noncurrent liabilities	3,148,005	-	3,148,005
Total liabilities	5,297,367	-	5,297,367
Deferred Inflows of Resources - Property Taxes	1,874,165	-	1,874,165
Net Position			
Net investment in capital assets	3,041,502	156,142	3,197,644
Restricted – expendable for specific operating activities	40,226	-	40,226
Unrestricted	5,152,594	162,442	5,315,036
Total net position	8,234,322	318,584	8,552,906
Total liabilities, deferred inflows of resources and net position	$ 15,405,854	$ 318,584	$ 15,724,438

	December 31, 2022		
	Hospital	Foundation	Total
Assets			
Current assets	$ 8,730,089	$ 93,516	$ 8,823,605
Capital, lease and subscription assets, net	5,741,434	-	5,741,434
Other assets	3,984	230,794	234,778
Total assets	$ 14,475,507	$ 324,310	$ 14,799,817
Liabilities			
Current liabilities	$ 1,786,198	$ -	$ 1,786,198
Noncurrent liabilities	1,885,049	-	1,885,049
Total liabilities	3,671,247	-	3,671,247
Deferred Inflows of Resources - Property Taxes	1,756,744	-	1,756,744
Net Position			
Net investment in capital assets	3,394,048	156,142	3,550,190
Restricted – expendable for specific operating activities	40,226	-	40,226
Unrestricted	5,613,242	168,168	5,781,410
Total net position	9,047,516	324,310	9,371,826
Total liabilities, deferred inflows of resources and net position	$ 14,475,507	$ 324,310	$ 14,799,817

The following tables include condensed combining statement of revenues, expenses and changes in net position information for the Hospital and its blended component unit for the years ended December 31, 2023 and 2022:

	December 31, 2023		
	Hospital	Foundation	Total
Operating Revenues			
Net patient service revenue	$ 12,457,410	$ -	$ 12,457,410
Other	1,237,208	7,236	1,244,444
Total operating revenues	13,694,618	7,236	13,701,854
Operating Expenses			
Other operating expenses	15,481,536	14,403	15,495,939
Depreciation and amortization	913,711	-	913,711
Total operating expenses	16,395,247	14,403	16,409,650
Operating Loss	(2,700,629)	(7,167)	(2,707,796)
Nonoperating Revenues (Expenses)			
Property taxes	1,864,196	-	1,864,196
Interest income	56,753	893	57,646
Interest expense	(88,801)	-	(88,801)
Noncapital grants and gifts	55,512	-	55,512
Provider Relief Funds (*CARES Act*)	-	-	-
Farm income	-	2,484	2,484
Farm expense	-	(2,161)	(2,161)
Total nonoperating revenues	1,887,660	1,216	1,888,876
Excess of Revenues Over Expenses Before Capital Grants and Gifts	(812,969)	(5,951)	(818,920)
Capital Grants and Gifts	(225)	225	-
Decrease in Net Position	(813,194)	(5,726)	(818,920)
Net Position, Beginning of Year	9,047,516	324,310	9,371,826
Net Position, End of Year	$ 8,234,322	$ 318,584	$ 8,552,906

	December 31, 2022		
	Hospital	**Foundation**	**Total**
Operating Revenues			
Net patient service revenue	$ 9,402,617	$ -	$ 9,402,617
Other	1,357,084	2,270	1,359,354
Total operating revenues	10,759,701	2,270	10,761,971
Operating Expenses			
Other operating expenses	11,829,145	31,966	11,861,111
Depreciation and amortization	731,037	-	731,037
Total operating expenses	12,560,182	31,966	12,592,148
Operating Loss	(1,800,481)	(29,696)	(1,830,177)
Nonoperating Revenues (Expenses)			
Property taxes	1,617,061	-	1,617,061
Interest income	11,476	636	12,112
Interest expense	(66,825)	-	(66,825)
Noncapital grants and gifts	375,763	-	375,763
Provider Relief Funds (*CARES Act*)	325,335	-	325,335
Farm income	-	26,565	26,565
Farm expense	-	(4,472)	(4,472)
Total nonoperating revenues	2,262,810	22,729	2,285,539
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	462,329	(6,967)	455,362
Capital Grants and Gifts	(435)	435	-
Increase (Decrease) in Net Position	461,894	(6,532)	455,362
Net Position, Beginning of Year	8,585,622	330,842	8,916,464
Net Position, End of Year	$ 9,047,516	$ 324,310	$ 9,371,826

The following tables include condensed combining statement of cash flows information for the Hospital and its blended component unit for the years ended December 31, 2023 and 2022:

	December 31, 2023		
	Hospital	Foundation	Total
Net Cash Used in Operating Activities	$ (1,972,278)	$ (7,167)	$ (1,979,445)
Net Cash Provided by Noncapital Financing Activities	1,919,708	-	1,919,708
Net Cash Provided by (Used in) Capital and Related Financing Activities	(654,175)	225	(653,950)
Net Cash Used in Investing Activities	(1,068,247)	(19,317)	(1,087,564)
Decrease in Cash	(1,774,992)	(26,259)	(1,801,251)
Cash, Beginning of Year	4,360,561	34,640	4,395,201
Cash, End of Year	$ 2,585,569	$ 8,381	$ 2,593,950

	December 31, 2022		
	Hospital	Foundation	Total
Net Cash Used in Operating Activities	$ (2,016,730)	$ (29,697)	$ (2,046,427)
Net Cash Provided by Noncapital Financing Activities	2,318,159	-	2,318,159
Net Cash Provided by (Used in) Capital and Related Financing Activities	(851,665)	435	(851,230)
Net Cash Provided by Investing Activities	11,476	22,545	34,021
Decrease in Cash	(538,760)	(6,717)	(545,477)
Cash, Beginning of Year	4,899,321	41,357	4,940,678
Cash, End of Year	$ 4,360,561	$ 34,640	$ 4,395,201

Note 14. Adoption of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*

Effective January 1, 2023, the Hospital adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for information technology subscriptions by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain subscription assets and liabilities for subscriptions that previously were recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement required a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest year presented. The Hospital did not have any SBITAs that met the scope of GASB 96 other than the one noted in Note 8, which was not effective until August 7, 2023. Thus, there was no requirement for any prior year amounts to be restated.

Supplementary Information

Ness County Hospital District No. 2
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
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	Actual	Tax Budget	Actual Over (Under) Budget
Net patient service revenue	$ 13,547,724	$ 9,405,420	$ 4,142,304
Other revenue	1,244,444	900,943	343,501
Total operating revenue	14,792,168	10,306,363	4,485,805
Operating expenses	15,895,439	14,887,825	1,007,614
Capital expenditures	114,095	664,000	(549,905)
Total operating expenses	16,009,534	15,551,825	457,709
Operating loss	(1,217,366)	(5,245,462)	4,028,096
Property tax revenue	1,864,196	1,888,278	(24,082)
Other nonoperating revenues	110,997	185,840	(74,843)
Total nonoperating revenues	1,975,193	2,074,118	(98,925)
Excess (deficiency) of revenue over expenses	$ 757,827	$ (3,171,344)	$ 3,929,171

Note: The above schedule reflects a comparison of current year operations and the tax budget.